

**The Mortgage Subsidy
Bond Tax Act of 1980:
Experience Under the Permanent Rules**

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THE MORTGAGE SUBSIDY BOND TAX ACT OF 1980:
EXPERIENCE UNDER THE PERMANENT RULES

The Congress of the United States
Congressional Budget Office

PREFACE

In the Mortgage Subsidy Bond Tax Act of 1980, the Congress sharply restricted the issuance of tax-exempt bonds for housing. Because a large number of bond issues was marketed under these restrictions in November and December 1981, the Congressional Budget Office (CBO) has been able to prepare this preliminary assessment of experience under the act. This paper, prepared at the request of Charles Rangel, Chairman of the Oversight Subcommittee of the House Committee on Ways and Means, examines these bond issues and describes the experience to date under the act. It also discusses the liberalizations of some of the act's provisions adopted December 16, 1981 by the Senate in the Miscellaneous Tax Bill (H.R. 4717).

Cynthia Francis Gensheimer of the CBO's Tax Analysis Division prepared the report, with the assistance of Martha J. Smith and under the direction of James M. Verdier. Bruce Davie of the Committee on Ways and Means reviewed and provided suggestions on the report. Patricia H. Johnston edited the manuscript and Linda B. Brockman typed it for publication.

Dozens of investment bankers, lawyers, housing agency officials, and rating agency and insurance company personnel gave generously of their time in relating their experiences with the act's provisions and providing information to CBO. A preliminary list of the bond issues discussed in this report was provided by The Bond Buyer in mid-December.

Alice M. Rivlin
Director

March 1982

CONTENTS

	<u>Page</u>
PREFACE	111
SUMMARY	1x
CHAPTER I. INTRODUCTION	1
Background	2
Bonds for Owner-Occupied Housing	2
Bonds for Rental Housing.	3
The Mortgage Subsidy Bond Tax Act of 1980	4
Restrictions of the Act	4
Effects of Act	5
Plan of the Paper	6
CHAPTER II. IMPACT OF ADVERSE MARKET CONDITIONS	9
High Interest Rates	9
Responses to Adverse Market Conditions	11
CHAPTER III. ARBITRAGE RULES FOR BONDS FOR OWNER-OCCUPIED HOUSING	13
Description of New Arbitrage Rules	13
Methods of Subsidization	16
Cash Contributions	16
Using Surplus From Other Housing Bonds	21
Self-Supporting Issues	22
Senior Bond/Junior Bond	22
Private Placement	24
Mortgage Forgiveness and Fee Reimbursement.	24
Net Effect of the Arbitrage Rules	26
Effects on Fees	26
Effects on Bond Interest Rates	29
Summary of Net Effects	30
Rebates of Excess Arbitrage Earnings	31
Sliding Scale Arbitrage Spread Passed by the Senate	31

CONTENTS

	<u>Page</u>
CHAPTER IV. EFFECTS OF OTHER PROVISIONS ON BONDS FOR OWNER-OCCUPIED HOUSING	33
Volume Limits	33
Targeted Area Provisions	36
First-Time Homebuyer Restriction	38
Purchase Price Limits	39
Registration Requirement	40
Bonds for Veterans' Housing	43
Bonds for Home-Improvement Loans	44
CHAPTER V. BONDS FOR RENTAL HOUSING	47
Market Conditions	47
Enforcement	43
Dispersal and Equal Access to Common Areas . .	48
Changes Proposed in the Miscellaneous Tax Bill Passed by the Senate	49
APPENDIX INDEX OF FOOTNOTES TO INDIVIDUAL BOND ISSUES	53
APPENDIX A. BONDS ISSUED IN 1981 FOR MORTGAGES ON OWNER- OCCUPIED HOUSING UNDER THE PERMANENT RULES OF THE ACT	55
APPENDIX B. TITLE 1 HOME-IMPROVEMENT BONDS ISSUED UNDER THE PERMANENT RULES IN 1981	99
APPENDIX C. SAMPLE OF BONDS ISSUED FOR RENTAL HOUSING IN LATE 1981	107

TABLES

	<u>Page</u>
TABLE 1. CASH CONTRIBUTIONS TO BONDS ISSUED FOR OWNER-OCCUPIED HOUSING UNDER THE ACT'S PERMANENT RULES . .	18
TABLE 2. 1981 LIMITS ON BOND VOLUME BY STATE	34
TABLE 3. PERCENTAGE OF MORTGAGE FUNDS THE TEN LARGEST 1981 ISSUERS EXPECT TO USE FOR NEWLY CONSTRUCTED HOUSING	41

SUMMARY

In December 1980, the Congress sharply limited the use of tax-exempt bonds for housing in response to a surge in the issuance of these bonds and in an attempt to target the assistance more efficiently. A year later, enough bonds have been issued under the new rules to enable the Congressional Budget Office to make a preliminary assessment of the effects of the act and to discuss the potential effects of some less restrictive amendments adopted by the Senate in the Miscellaneous Tax Bill.

BACKGROUND

Tax-exempt bonds have been issued for housing since just after World War I, but not until the early 1970s were the bonds issued in any great quantity. At that time, many state housing agencies started to issue tax-exempt bonds for mortgages on apartment buildings and on owner-occupied houses, and in 1978 local governments began to issue bonds for mortgages on owner-occupied houses.

State and local governments issue bonds at relatively low, tax-exempt interest rates and relend the proceeds at slightly higher rates for mortgages. In the case of bonds issued for owner-occupied housing, people apply for the mortgages at private lending institutions that are hired by the bond issuers to process the mortgage applications to check both for general creditworthiness and to ensure that borrowers meet all restrictions imposed by federal and state law and by the issuer.

The federal government subsidizes the bond issues because interest on the bonds is exempt from federal income tax. Most of the subsidy is passed on to homeowners who get below-market-rate mortgages and to bondholders who do not have to pay tax on their investment income (they pay a lower, implicit tax, however, in that the bonds carry a lower interest rate than taxable bonds do). Some of the subsidy also goes to the various intermediaries in the process.

The use of tax-exempt bonds for owner-occupied housing increased dramatically in the late 1970s. In 1976, according to the Department of Housing and Urban Development, a total of \$1.3 billion in these bonds was issued, compared to \$12 billion in 1980.

During this expansionary period, federal law imposed basically no restrictions on these bonds, as long as they were issued under the auspices of a state or local government. The Congress was concerned both about the large federal revenue losses associated with the growing bond volume and about the possibility that the volume of housing bonds would push up interest rates on tax-exempt bonds issued for more traditional public purposes. Moreover, the Congress wanted to target the assistance as efficiently as possible.

THE MORTGAGE SUBSIDY BOND TAX ACT OF 1980

In response to these concerns, the Congress enacted the Mortgage Subsidy Bond Tax Act of 1980. This act sharply limits tax-exempt bonds for owner-occupied housing and denies tax-exemption on nearly all bonds for owner-occupied housing issued after December 31, 1983. It also restricts somewhat tax-exempt bonds for rental housing.

In order to limit the dollar amount of bonds issued for owner-occupied housing, the act imposes limits on the amount of bonds that each state may issue. The act imposes several restrictions to target the assistance: issuers can charge homebuyers interest rates no more than 1 percentage point above the interest rate on the bonds; all borrowers must be first-time homebuyers; price limits are imposed on bond-financed houses; and a portion of each bond issue is reserved for mortgages in targeted areas. Bonds can be issued for rental housing only if at least 20 percent of apartment units (15 percent in targeted areas) are rented to low- or moderate-income tenants.

EXPERIENCE UNDER THE ACT

Lenient transitional rules exempted bond issues in the pipeline from the act's restrictions. Therefore, most of the bonds subject to the permanent rules of the legislation were not issued until the last two months of 1981, after workable temporary

regulations were published. Thirty-eight bond issues for mortgages on owner-occupied housing were issued under the new restrictions in 1981, totaling \$1.68 billion. Eight bond issues for home-improvement loans were issued under the permanent rules in 1981, totaling \$155 million. A total of \$1.1 billion in bonds for rental housing was issued in 1981, only a small portion of which was affected by the act's restrictions, because most of these bonds have traditionally financed apartments in which all tenants are low income.

Adverse Market Conditions

While the act's restrictions created difficulties for bond issuers in late 1981, mortgage revenue bonds faced other problems unrelated to the act. Tax-exempt interest rates reached their highest historical levels in late 1981, both in absolute terms and as a percentage of comparable taxable rates. Consequently, since high interest rates on bonds necessitate high interest rates on the mortgages financed with bond proceeds, the mortgage interest rates offered by these programs had to be higher than those previously charged. Only a small group of borrowers both could (or would) pay the higher rates and had incomes high enough to meet the lenders' qualifications for the high-rate mortgages but low enough to meet the programs' income limits.

In response to the high interest rates on long-term, tax-exempt bonds, many issuers devised ways to shorten bond maturities and thereby achieve lower bond interest rates that enabled them to set lower mortgage interest rates. Usually this was done by shortening the maturities on the mortgages. Some programs offer level-payment mortgages that will be paid off at the end of 20 or 25 years instead of the usual 30 years or mortgages in which the monthly payments increase each year, so that the entire mortgage is paid fully at the end of about 16 years.

Arbitrage Rules

Federal law generally prohibits the issuance of tax-exempt bonds at low interest rates if the bond proceeds are invested at much higher rates. Without these so-called "arbitrage" rules, state and local governments could profit from tax-exempt bonds. As part of the Mortgage Subsidy Bond Tax Act of 1980, the Congress tightened the arbitrage rules for tax-exempt bonds for owner-occupied housing in order to channel most of the subsidy provided by the tax exemption to homeowners rather than to issuers and financial intermediaries. To this end, the act requires that mortgage

interest rates be no more than 1 percentage point above bond interest rates and that any profit earned on nonmortgage investments be rebated to the homeowners or to the federal government.

The act so limits the yield on investments made with bond proceeds that the yields are not high enough to cover interest due on the bonds and other expenses and still leave a cushion for unexpected contingencies. In effect, therefore, the act implicitly requires state and local governments to subsidize tax-exempt bonds for owner-occupied housing. The Administration has just proposed explicitly requiring state or local subsidization for all tax-exempt bonds issued for private purposes.

For the most part, subsidies on housing bonds were provided by cash contributions from state housing agencies or state or local governments. The yield on investments made with these cash contributions was then available, along with the yield on investments made with bond proceeds, to cover expenses and debt payments on the bonds and to provide additional security for the issue. The amount of cash contributions varied widely from issue to issue but was about 8.7 percent of the total amount of bonds issued for mortgages on owner-occupied houses in 1981.

The ability and willingness of state and local governments to subsidize bond issues also varies widely. Some state housing agencies have large net worths and were able to contribute to issues, but others have smaller net worths or funds that are committed to other purposes. If surplus funds remain after all bonds have been retired and expenses met, they usually revert to the housing agencies' general funds. A portion of the agencies' contributions, therefore, might be thought of as loans, rather than grants, although the amount of funds returned could be small and not recovered for many years.

Some issues did not receive cash contributions but were issued as housing agencies' general obligations or were backed by other agency assets in addition to the bond proceeds. Several issues were self-supporting, however. These included bonds of which at least a portion were unrated and privately placed with investors rather than publicly marketed. Investors who purchased these bonds probably were willing to accept a level of risk unacceptable to the rating agencies.

Under another approach, homebuyers were charged interest rates exceeding those normally allowed, on the assumption that large

amounts of their mortgage debt would be forgiven once all bonds are retired. This later forgiveness would reduce the effective interest rate. Compliance with the arbitrage rules requires only that the issuer demonstrate, under reasonable assumptions, that it expects to forgive a large amount of indebtedness. If events turn out otherwise, no violation of the rules would occur, but homeowners would pay higher interest rates than the Congress intended in the 1980 act.

As discussed above, the intent of the new arbitrage rules was to channel as much of the subsidy as possible to homebuyers and thereby offer them the lowest possible interest rate on their mortgages. The success of the rules in achieving low mortgage interest rates is uncertain, for no one knows what the interest rates would have been in the absence of the rules.

The lower are the costs of a bond program--bond interest and fees to financial intermediaries--the lower are the mortgage interest rates that need be charged. In the aggregate, fees for financial services have probably decreased a little or stayed the same, even though the act increased the responsibilities of many financial intermediaries. Because the act's yield restrictions reduce the security of the bonds (even with sizable cash contributions), bond interest rates may be somewhat higher than they otherwise would be, however. The net effect of the act, therefore, may have been to increase mortgage rates somewhat.

The act requires that any profit on nonmortgage investments made with bond proceeds be rebated to the homeowners or to the federal government. By design many of the issuers do not expect to rebate much, if any, money. Their reserves are either funded wholly with outside cash contributions, or invested pursuant to long-term contracts with banks at interest rates below the rates on the bonds.

Volume Limits

The act limits the annual volume of bonds that can be issued in any state to \$200 million or to 9 percent of the state's annual mortgage originations averaged over the past three years, whichever is greater. The formula favors sparsely populated states; in 1981, bonding authority per capita was \$500 in Alaska but only \$24 in New York State. The volume limits imposed by the act were not a constraint in 1981, however, since only two states issued their full allotments in that year.

Targeted Area Provisions

The targeted area provisions of the act require that at least 20 percent of mortgage funds be reserved for targeted areas, designate certain census tracts automatically as targeted areas, and allow states to nominate other areas for designation. Less than the full 20 percent can be reserved if the jurisdiction contains no targeted areas, if the targeted areas are sparsely populated, or if they are areas in which few mortgages have been made in the past. Because of these exceptions, the majority of 1981 issuers set aside little or no funds for mortgages in targeted areas.

Although federal law offers incentives to set aside funds for targeted areas by allowing the purchase of higher priced houses and purchase by other than first-time homebuyers in those areas, the value of these incentives is small compared to the added costs of setting aside funds for mortgages in targeted areas. The market, therefore, places at a disadvantage issuers that are required by law to set aside the full 20 percent of funds for targeted areas, namely those with many qualified census tracts.

First-Time Homebuyer and Purchase Price Provisions

With a few exceptions, the act requires potential purchasers to be first-time homebuyers. Because many state and local governments had previously imposed low-income limits on borrowers under their tax-exempt bond programs, a majority of the borrowers has always been first-time homebuyers. Many of the issuers have not been much affected by this provision, therefore, other than to be faced with the additional administrative burden of demonstrating compliance. Although not bound to do so by federal law, nearly all issuers impose income limits on borrowers.

The act limits the purchase prices of bond-financed houses to 90 percent of the area median purchase price (110 percent in targeted areas). The limits vary widely according to area, ranging from \$33,000 for existing houses in northeast Pennsylvania to \$144,000 for existing houses in San Jose, California.

Registration Requirement

All tax-exempt bonds for housing must be issued in registered form after January 1, 1982, meaning that names of all bondholders must be on file with the trustee bank. This requirement was imposed so that the Internal Revenue Service (IRS) could locate

bondholders to collect gift and estate taxes and tax on bond interest if the bonds were found to violate any of the act's requirements. Housing bonds are currently the only major group of tax-exempt bonds that must be issued in registered form. Many investment analysts fear that this requirement has narrowed the market for the bonds and that interest rates on them may initially rise by at least one-fourth of a percentage point as a consequence.

Bonds for Veterans' Housing

Bonds for veterans' housing may be issued free of nearly all of the act's requirements, as long as the bonds are general obligations of the state. California and Oregon were the only states that issued general obligation bonds for veterans' housing in 1981, but these bonds totaled 20 percent of the tax-exempt bonds issued for owner-occupied housing in that year.

Bonds for Home-Improvement Loans

Eight issues of bonds for home-improvement loans were marketed in 1981 under the act's permanent rules. Bond proceeds may be used for home-improvement loans up to \$15,000 each. In 1981 most of these bonds financed Title 1 home-improvement loans insured by the Federal Housing Administration. Title 1 loans can be used for general home improvements and repairs, but not for recreational facilities, such as swimming pools.

The home-improvement loan bonds were more heavily subsidized with cash contributions (often with Community Development Block Grant funds) than were the bonds for mortgages on owner-occupied houses. In several cases, interest rates were set lower on loans for low-income people or for people buying houses in designated neighborhoods than for other borrowers.

Bonds for Rental Housing

The act allows tax-exempt bonds to finance rental housing only if at least 20 percent of the units (15 percent in targeted areas) are rented to low- or moderate-income tenants for at least 20 years. Since most apartments financed with tax-exempt bonds have been 100 percent low-income projects, this requirement only affects a small share of the rental-housing bonds.

At the high interest rates now prevailing in the tax-exempt bond market, most developers do not find rental housing projects

profitable, even without the requirement that 20 percent of the units be reserved for low-income tenants. The targeting requirement probably worsens the profit outlook somewhat, but is not the primary factor impeding bond issuance.

Enforcement of the targeting requirement could prove to be a problem, since many of the bonds are being issued with maturities shorter than 20 years. Bond counsels have required that the 20-year targeting requirement be filed as a deed restriction or covenant running with the land, so that it binds current and future owners of the project. If abrogated, low-income tenants, or the bond issuing agencies, would possibly sue for enforcement of the restriction.

Very little is known about the quality of the units that have been set aside for low- or moderate-income tenants (whether they are less desirable than or separated from the other units, for instance).

PROPOSED AMENDMENTS TO THE ACT

The Miscellaneous Tax Bill (H.R. 4717) passed by the Senate on December 16, 1981, contains provisions easing the restrictions on bonds for owner-occupied and rental housing. The House bill contains no provisions dealing with housing bonds.

The Senate version of the bill would allow slightly higher yields on mortgages financed with bond proceeds. Most issuers feel that these higher yields would enable them to issue bonds with smaller cash contributions, but that some contribution would probably still be needed in most cases. The Senate bill would also shorten the length of time during which the targeting requirement for rental housing bonds would be in effect. The Joint Committee on Taxation estimates that the federal revenue loss of the amendments would be \$4 million in fiscal year 1983 and \$22 million in fiscal year 1986, for a total revenue loss over 1983-1986 of \$50 million.

CHAPTER I. INTRODUCTION AND BACKGROUND

The volume of state and local tax-exempt bonds for owner-occupied housing rose sharply in the late 1970s, from a total (including bonds for veterans' housing) of about \$1.3 billion in 1976 to about \$12 billion in 1980.¹ The latter amount constituted 21 percent of the total long-term, tax-exempt bonds issued in that year.² Much of the growth was caused by the entry of local governments into the tax-exempt housing bond market for the first time.

This large increase and shift in the use of tax-exempt bonds prompted several concerns in the Congress. It was feared that the growth in housing bond volume would generate large federal revenue losses and push up interest rates on bonds issued for traditional municipal projects, such as schools and roads. In addition, the Congress was concerned about the allocation of the federal subsidy created by the bonds' tax-exempt status. To improve the bonds' efficiency, the Congress wanted to channel as much of the subsidy as possible to homebuyers and to target the subsidy on deteriorated neighborhoods and first-time homebuyers.³ In response to these concerns, the Congress enacted restrictions on the use of tax-exempt bonds for housing in the Mortgage Subsidy Bond Tax Act of 1980.⁴

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1. Figures are from Fred Thompson, Department of Housing and Urban Development.
 2. Based on CBO total for tax-exempt bonds, which includes large amounts of industrial development bonds not compiled elsewhere.
 3. See The Mortgage Subsidy Bond Tax Act of 1979, Report on H.R. 5741, House Committee on Ways and Means, 96th Cong., 1st sess. (1979).
 4. The Mortgage Subsidy Bond Tax Act of 1980 was part of the Omnibus Reconciliation Act of 1980 (Public Law 96-449) and was amended on December 24, 1980 by Public Law 96-595.

BACKGROUND

Bonds for Owner-Occupied Housing⁵

The first tax-exempt bonds for owner-occupied housing were issued by California after World War I and by Oregon shortly after World War II to provide below-market-rate mortgages for veterans. In the early 1970s, state housing agencies started issuing bonds to finance mortgages on single-family housing for all state residents of low- or moderate-income. In 1978 cities and counties began to issue the bonds; at about the same time, state agencies shifted their efforts sharply from rental housing toward owner-occupied housing, much of it in the suburbs and aimed at middle-income families.

Each bond program is slightly different. Some state and local housing agencies have large staffs that play an active role in the month-to-month administration of their programs, while other issuers have no staffs and consist of boards of local citizens who meet only to approve the bond issues. The basic mechanics of the issues are all the same, however. Bond proceeds are used to purchase mortgages made by private lending institutions according to rules laid out by the issuer. The private lenders process the loan applications, automatically accepting those that meet the issuer's eligibility requirements and the lenders' creditworthiness standards. The selected homeowners send their monthly mortgage payments to the lenders, who forward the money to another financial institution, which pays the bondholders. Because the bonds are generally not backed by the issuer's full faith and credit, the bondholders and mortgage insurers assume any risks of a bad mortgage portfolio.

Because interest on the bonds is tax exempt, bondholders are willing to accept a lower interest rate on them than on comparable taxable securities. This enables a below-market interest rate to be offered to homebuyers on their mortgages. The federal government subsidizes the issues in that it loses the taxes that would otherwise be paid on bond interest. The subsidy mainly is divided between the bondholders and homebuyers, with some portion also going to the various intermediaries in the process.

5. See Congressional Budget Office, Tax-Exempt Bonds for Single-Family Housing (April 1979).

Bonds for Rental Housing

Although the first tax-exempt bonds for rental housing were issued in 1955 by New York State, it was only in the early 1970s that large numbers of state housing agencies began to issue bonds for rental housing.⁶ In the mid-1970s, state housing agencies became heavily involved with the then new Section 8 housing program, under which the federal government pays private project owners a large portion of rent on behalf of low-income tenants. The housing agencies issue tax-exempt bonds to provide construction and permanent financing for these privately owned Section 8 apartment buildings.

Section 11(b) of the Housing Act of 1937, as amended in 1974, provided a new authority to issue tax-exempt bonds for Section 8 projects to local housing agencies, nonprofit organizations, and individuals designated as public instrumentalities. In 1978, \$800 million in tax-exempt bonds was issued by these local public agencies and their instrumentalities for Section 8 housing.⁷ In the late 1970s and early 1980s, most tax-exempt bonds issued by state housing agencies for rental housing financed Section 8 projects, although some state bonds financed market-rate rental projects, and local governments frequently issued bonds for market-rate apartment buildings. Very often the mortgages on the market-rate projects are insured by the Federal Housing Administration.

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6. For a brief history of the development of tax-exempt bonds for housing, see Council of State Housing Agencies, The History of Tax-Exempt Financing for Housing Development (1981).
 7. Ibid, p. 3. The Department of Housing and Urban Development (HUD) issues tax-exempt, federally guaranteed notes to finance the construction, modernization, and acquisition of public housing agency apartment projects. In 1981, HUD issued \$20.1 billion of these notes, with maturities of between three months and one year. (Weekly Bond Buyer, February 16, 1982.) As of March 1, 1982, \$10.4 billion of these notes was outstanding. HUD also issues tax-exempt notes for urban renewal projects. On March 1, 1982, \$130 million of these urban renewal notes for housing was outstanding. In 1981, \$1.5 billion in other interim construction financing and short-term notes was issued by state and local housing agencies (Fred Thompson, HUD).

THE MORTGAGE SUBSIDY BOND TAX ACT OF 1980

Restrictions of the Act

The 1980 act imposed many restrictions on the issuance of tax-exempt bonds for owner-occupied housing and eliminated the tax exemption on all bonds (except those for veterans' housing) issued after December 31, 1983. The major restrictions of the legislation are:

- o Special provisions (called "arbitrage" provisions) restricting the yield on mortgages and invested reserves funded with bond proceeds (the yield on these investments is usually higher than the yield on the bonds);
- o State-by-state annual limits on aggregate bond volume;
- o Rules requiring nearly all homebuyers to be first-time homebuyers;
- o Limits on the prices of houses to be purchased;
- o A requirement that 20 percent of lendable proceeds be set aside for mortgages in designated "targeted areas"; and
- o A requirement that all bonds be issued in registered form after January 1, 1982. (Registration requires that the name of the current bondholder be recorded with the trustee bank.)

Bonds issued to finance mortgages for veterans are exempted from all of the requirements, including the sunset provision, provided that the bonds are general obligation bonds, backed by the full faith and credit of the state and issued in registered form. The act does forbid the use of veterans' bond proceeds to replace or acquire existing mortgages.

The act also restricts the use of tax-exempt bonds to finance home-improvement loans. Home-improvement bonds are subject to all of the restrictions listed above, except for the rules requiring loan recipients to be first-time homebuyers and the rules limiting the prices of houses to be financed with bond proceeds. Home improvement loans cannot exceed \$15,000.

To target the subsidy of tax-exempt bonds for rental housing, the act requires that at least 20 percent of the units (15 percent in targeted areas) in apartments financed with tax-exempt bonds be rented to tenants of low- or moderate-income for at least 20 years, and that all of these bonds be issued in registered form after January 1, 1982. (The Senate version of the Miscellaneous Tax Bill, H.R. 4717, would shorten the length of time during which the low- and moderate-income tenant requirement is in force.)

Effects of Act

Few bonds were issued under the new restrictions until November 1981, mostly because lenient transitional rules allowed many bond issues in the pipeline to be issued free of the restrictions. Issuances were also delayed because temporary regulations establishing workable administrative compliance procedures were not set forth until November 5, 1981.⁸

Publication of the temporary regulations, coupled with a slight drop in interest rates, led to a large number of issues in the last two months of 1981. Issuers were anxious to market bonds before 1982 in order not to have to use part of their 1982 bond allocation total and to avoid the registration requirement that went into effect on January 1, 1982. All told, 38 issues of bonds for mortgages on owner-occupied houses (other than general obligation bonds for veterans' houses) were issued under the permanent rules of the act in 1981, for a total of \$1.68 billion. Eight issues of home-improvement bonds were issued in 1981 totaling \$155 million, bringing the total of bonds issued under the permanent rules to 53 percent of all bonds for owner-occupied housing (other than veterans' housing) issued in 1981. Roughly \$1.1 billion in tax-exempt bonds for rental housing was issued in 1981, although

8. The Internal Revenue Service issued temporary and proposed regulations on the provisions dealing with mortgage revenue bonds on July 1, 1981 in the Federal Register (46 Fed. Reg. 34311 and 34348), which were amended by a notice of proposed rule making released on November 5, 1981. The thrust of the amendments had been announced by John Chapoton, Assistant Secretary of the Treasury Department, on October 15, 1981.

only several hundred million dollars of rental housing bonds were affected by the act.⁹

Nearly all of the bonds for owner-occupied housing were subsidized by an appropriation of a state or local government or a contribution of a housing agency from previously accumulated surpluses. These contributions were needed because of provisions in the act that place strict limits on the yields on investments made with bond proceeds. As another amendment to the Miscellaneous Tax Bill (H.R. 4717), the Senate passed a provision that would allow a slightly larger spread between the yield on mortgages and the yield on the bonds. The total revenue loss from this amendment and the one shortening the duration of the targeting requirement for rental bonds would be \$4 million in fiscal year 1983, increasing to \$22 million in fiscal year 1986.¹⁰ The corresponding House bill contained no reference to mortgage subsidy bonds.

PLAN OF THE PAPER

The purpose of this study is to present data gathered on the bonds issued under the permanent rules of the act. Detailed information on each bond issue is presented in Appendixes A, B, and C, and an overall summary of the workings of the major provisions is presented in the body of the report, with emphasis on the provisions discussed in the conference on the Miscellaneous Tax Bill.

The bulk of the study is devoted to analyzing bonds for owner-occupied housing, since these bonds are most affected by the act. Chapter II describes the effects of adverse market conditions--very high interest rates--and the ways in which state and local govern-

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9. Figures for totals of owner-occupied and rental housing bonds are from Fred Thompson, Department of Housing and Urban Development. Nearly all of the rental housing bonds would have met the requirements of the act even had no legislation been passed. Some of the rental housing bonds were issued under Section 11(b) of the Housing Act of 1937, as amended, and are therefore not subject to the restrictions imposed by the 1980 act.
 10. Joint Committee on Taxation, pamphlet summarizing H.R. 4717, Miscellaneous Tax Bill, as amended and passed by the Senate (February 12, 1982).

ments have reacted. Chapter III is devoted to the arbitrage provisions of the act. It describes the new rules and the difficulties they pose for the issuance of self-supporting bond issues, the forms and uses of subsidization funding, the techniques for structuring self-supporting issues, and the net effect of the rules and whether they are accomplishing their intended goals. Chapter IV summarizes the effects of the act's other provisions on bonds for owner-occupied housing and home-improvement loans. Chapter V describes bonds issued for rental housing.

Appendix A is in the form of a table providing the following information on each issue of bonds for mortgages on owner-occupied housing: date and size of issue; net interest cost and mortgage interest rate; type of bond obligation and type of mortgage; bond ratings; percentage application of funds for mortgages, reserves, costs of issuance, and bond discount; amount of funds from sources other than bond proceeds; designated recipient of excess arbitrage earnings; percent of lendable funds set aside for targeted areas; ranges of purchase price and income limits; and issuer's other bonds outstanding and fund balance. The footnotes to the table describe each issue briefly, the source and use of any contributed funds, the fees imposed on various participants, the number of lending institutions involved, and the names of the underwriters. Appendix B is a comparable table containing information on the bonds issued for home-improvement loans, and Appendix C is a table containing data on a sample of bonds for rental housing.

Data for the tables were derived from each issue's official statement. The body of the study summarizes that data and relies heavily on information from telephone conversations with lawyers, investment bankers, state housing agency officials, and insurance company and rating agency personnel.¹¹

11. The study does not cover technical legal issues, but these issues are addressed in "Regulations on Mortgage Subsidy Bonds," by Dale Collinson and the Tax Section of the New York State Bar Association (December 30, 1981).

CHAPTER II. IMPACT OF ADVERSE MARKET CONDITIONS

Even had no restricting legislation been enacted, states and local governments would have had trouble issuing mortgage revenue bonds in late 1981. Demand by investors for tax-exempt bonds had dropped off significantly, particularly for those like housing bonds that typically have long maturities. Individual investors found tax-exempt bonds less attractive an investment with the reduction in the top marginal tax rate to 50 percent and with the enactment of new tax-preferred savings incentives--expanded individual retirement accounts and Keough accounts and tax-free all savers' certificates.¹ In addition, the demand for tax-exempt bonds by traditional institutional investors--commercial banks and casualty insurance companies--had almost dried up.

HIGH INTEREST RATES

As a result of the conditions discussed above, the level of interest rates on long-term tax-exempt bonds rose sharply to about 85 percent of the rates on comparable taxable bonds, compared to the 70 percent ratio that characterized the relationship throughout the 1970s.² With taxable interest rates extremely high, tax-exempt interest rates reached all-time highs.

The high level of interest rates on tax-exempt bonds, both in absolute terms and relative to rates on taxable bonds, posed serious problems for mortgage revenue bond issuers. Since the interest rate charged on the mortgages has to be high enough to defray the interest expense on the bonds, high bond interest rates lead necessarily to high interest rates on mortgages financed with bond proceeds. But if tax-exempt interest rates are high relative

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1. These were all provisions of the Economic Recovery Tax Act of 1981 (Public Law 97-34).
 2. The ratio of yields on Aaa-rated, 20-year general obligation tax-exempt bonds to yields on 20-year U.S. government bonds ranged between 77 and 91 percent and averaged about 85 percent in November and December 1981 (Department of HUD).

to taxable rates, the interest savings on mortgages financed with tax-exempt bonds may not be very large, and there may not be sufficient demand for these mortgages. This could be particularly true if homebuyers associated mortgage revenue bond programs with burdensome red tape or other restrictions. Under many of the programs, for instance, homebuyers are charged loan origination fees of several percentage points, which make these mortgages less attractive for many first-time homebuyers who plan to pay off their mortgages within a few years. In addition, under the act, the pool of potential mortgagors is limited explicitly to first-time homebuyers and to those buying moderately priced houses, which automatically restricts the potential market for the mortgages.

Tax-exempt bond rates that are high in absolute terms result in mortgage interest rates that are high in absolute terms, which also limits the market for the mortgages. At very high interest rates, the number of people interested in buying houses is limited, and those who are interested in buying may find it difficult to qualify for mortgages. This is especially true of first-time homebuyers who, as a group, tend to have relatively low incomes and of all homebuyers in programs with low-income limits.³

In order to reduce interest rates on bond-financed mortgages, several states have "bought them down." Alaska, Tennessee, and Wisconsin made cash contributions to their mortgage bond issues to reduce the interest rates charged on mortgages.

An additional problem caused by market conditions generally occurs when tax-exempt rates are high relative to taxable rates, especially under the new arbitrage rules. In late 1981, issuers were unable to invest bond proceeds at rates as high as rates on the bonds. Since it can take up to a year and a half to make all of the mortgages, bond proceeds are invested until then in short-term securities. To the extent that the yield on those securities is below the interest cost of the bonds, it may be more difficult to demonstrate that the bonds are creditworthy.

3. See the footnotes to the Riverside, California issue in Appendix A. A market demand study found that only 11 percent of the county's population has income below \$34,344 (enabling them to fall below the program's income limit) and above \$28,413, the minimum income to qualify for a mortgage on the houses being constructed under the program.

RESPONSES TO ADVERSE MARKET CONDITIONS

Several bond issues that had been planned for late 1981 were scaled back, postponed, or cancelled.⁴ As mentioned above, in a few instances states contributed funds to reduce interest rates on the mortgage loans. In other cases, the maturities on the mortgage loans were reduced, enabling the issuer to shorten maturities on the bonds and thereby issue bonds at lower interest rates than rates prevailing on long-term bonds.

Mortgage maturities have been shortened in several ways. Some programs (Kentucky; Oklahoma; and central, east, and southeast Texas) offer level-payment mortgages that amortize over terms shorter than 30 years--usually 20 or 25 years. Growing equity mortgages (GEMs) are being offered in Hawaii, Michigan, and Florida. Interest rates on GEMs are fixed for the life of the mortgage, and the payments in the first year are the same as payments on a 30-year, level-payment mortgage at the same interest rate. At specified intervals thereafter (usually once each year), monthly mortgage payments are increased (usually by 3 percent each year), with the entire increase used to pay off principal more quickly than under the standard 30-year mortgage. As a result, the entire mortgage is paid off quite early--at the end of 16 or 17 years.⁵

Average bond maturity has also been shortened by structuring the bonds on the assumption that mortgagors will prepay their mortgages at the same rate as experienced historically by the Federal Housing Administration (FHA) for the region of issuance. Since structuring the bonds on the assumption that prepayments will occur is now considered somewhat risky, this kind of structuring is coupled with a letter of credit from a bank. Under this agreement,

4. These include, among others, issues in Indiana, Maryland, Montana, West Virginia, and Benton County, Arkansas. Adverse market conditions were probably not the only factor causing difficulties for these issues, however.
5. At least one issuer is planning to offer mortgages in which monthly payments would be the same as those on a 30-year, level-payment mortgage but whose principal balance would be due at the end of fifteen years. A private lender would agree to refinance these "balloon mortgages" at the market interest rate prevailing at the end of the fifteen years.

the bank agrees to stand by to make the scheduled debt payments on the bonds in the event that principal payments on the mortgages occur more slowly than expected, thus making it impossible to make the scheduled payments on the bonds. In return, the bank usually receives a fee when the issue is first sold and is paid interest at a prespecified rate for whatever advances it ultimately makes to the issue.

Bank letters of credit are used in another way to shorten expected bond maturities. In several issues, a major portion of the bonds are "option bonds" (sometimes called "put bonds"), which are 25- or 30-year bonds that give the holder the option to redeem them at par (full face amount) at the end of the fifth year (and sometimes once a year thereafter). These bonds carry the lower interest rates now prevailing on bonds with a five-year rather than a 25- or 30-year maturity. In order to have a means to pay off these bonds should they be redeemed early, the issuer purchases a letter of credit from a bank, under which the bank agrees to purchase, at par, any option bonds that are redeemed early. In exchange, the bank generally is allowed to keep the redeemed bonds and receives a large initial fee and sometimes annual fees as well.⁶ The bank that issues the letter of credit is often the bank at which the bond reserves and other bond funds are invested, usually pursuant to a long-term investment contract.

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6. The fees compensate the bank for the risk it takes. Bondholders will redeem the bonds early only if interest rates have subsequently risen, making newly issued bonds a more attractive investment. Since the bank has to purchase the bonds at par, on resale it will receive less than it had to pay for them.

CHAPTER III. ARBITRAGE RULES FOR BONDS FOR OWNER-OCCUPIED HOUSING

The arbitrage rules in the 1980 act generally have hampered the efforts of issuers to structure self-supporting mortgage revenue bond issues that do not require additional subsidization in order to receive bond ratings. Nearly all of the bonds that have been issued thus far under the permanent rules have been sold only because of some kind of state or local subsidization. The magnitude of these subsidies and their different forms are discussed below in this chapter. A few bond issues have been self-supporting, and it is possible, but not probable, that after more experience working with these rules issuers will devise ways to make most issues self-supporting. Even if self-supporting issues are not universally feasible, however, state and local subsidization might be desirable. President Reagan has proposed, for example, that all tax-exempt bonds issued for private purposes after December 31, 1985 be required to receive some state or local subsidy.¹

This chapter focuses on four issues:

- o Description of the new arbitrage rules;
- o Methods of subsidization used by issuers;
- o Techniques to structure self-supporting issues; and
- o Net effects of the rules, including their success in channeling most of the subsidy to homebuyers.

DESCRIPTION OF NEW ARBITRAGE RULES

Federal arbitrage rules are imposed on all tax-exempt bonds and limit the difference between the yield on the bonds and the

1. The state or local contribution could take a variety of forms, but would have to equal at least one percent of the face amount of the bonds, unless the bonds were issued as general obligations of the state or local government. See Department of the Treasury, "General and Technical Explanation of Tax Revisions and Improved Collection and Enforcement Proposals" (February 26, 1982).

yield on investments made with bond proceeds.² These rules ensure that issuers do not profit by issuing bonds at low, tax-exempt interest rates and investing the proceeds at significantly higher taxable rates. The Mortgage Subsidy Bond Tax Act subjects bonds for owner-occupied housing to tighter arbitrage rules than previously applied to such issues.

Under the former arbitrage rules for mortgage revenue bonds, issuers could earn and keep an unrestricted yield on "reasonably required reserves" of up to 15 percent of bond proceeds (and on all bond proceeds during the "temporary period" until mortgages were purchased with bond proceeds). The former rules also permitted the yield on mortgages to exceed the yield on bonds by 150 basis points.³

The new arbitrage rules are extremely complicated and technical, but they boil down to three requirements. First, the effective yield on the mortgages cannot exceed the interest rate on the bonds by more than 1 percentage point (100 basis points). Second, the issuer is not allowed to earn a yield on nonmortgage investments that is any higher than the interest rate on the bonds. Third, to the extent that the issuer does accumulate "excess arbitrage earnings" from the nonmortgage investments, it must rebate them to the mortgagors or to the federal government.

At the same time that the spread permitted between mortgage and bond yields was cut from 150 to 100 basis points, the definition of bond yield was changed, so that the reduction in "spread" was actually greater than 50 basis points. Previously, an issuer could charge mortgagors 150 basis points more than the interest

2. Mortgage bond proceeds are invested as mortgages and reserve funds maintained in bank accounts.
3. The Administration has proposed changing the arbitrage rules for bonds financing all private activities. Issuers would no longer be allowed to earn an unrestricted yield on bond proceeds during the temporary construction period or on reserves, and bond issuance costs would no longer be allowed to be taken into account in the yield calculation. See Department of the Treasury, "General and Technical Explanation of Tax Revisions and Improved Collection and Enforcement Proposals" (February 26, 1982).

rate on the bonds, plus an amount sufficient to cover the costs of issuing the bonds and the underwriters' discount.⁴ Although issuance costs and underwriters' discount vary from issue to issue and depend on market conditions, they usually amount to at least 35 basis points amortized over the mortgage lives. Thus, the "spread" was actually reduced by at least 85 basis points (from around 185 basis points (150 plus 35) to 100 basis points).⁵

In addition to underwriters' discount and costs of issuance, expenses that must be recouped within the new 100 basis point spread include mortgage loan origination and servicing fees; premiums for mortgage pool insurance; and fees for the trustee, paying agent, and accountants.

The new arbitrage rules so restrict the yields on investments made with bond proceeds that the yields are insufficient to cover the costs of the bond program (fees to financial intermediaries and debt payments on the bonds), according to the worst-case scenarios assumed by the rating agencies.⁶ Cash contributions by state or

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4. Costs of issuance generally include rating agency fees, printing expenses, costs of market analysis studies, and some lawyer and accountant fees. Underwriters' discount is paid to the syndicate of investment banking firms that buys the bonds. It covers sales commissions for the bond traders, compensation to the managing firm to cover its expenses (legal, travel, accounting) and an amount to compensate the syndicate for the risk of interest rate fluctuations that might occur between sale and delivery of the bonds.
 5. Most bond lawyers feel that the only redefinition was in the treatment of underwriters' discount and costs of issuance. Some lawyers, however, believe that, under prior law, points paid by the seller could be disregarded in yield calculations. Since the new rules clearly require that these points be calculated into the mortgage yield, some lawyers consider that the spread reduction was actually that much greater.
 6. Rating agencies test the creditworthiness of an issue against a myriad of scenarios--for instance, scenarios in which all mortgages prepay extremely quickly, no mortgages prepay, no mortgages are ever originated, or short-term funds earn only 5.5 percent interest.

local governments can raise the ratio of assets to bonds, thus enabling the issue to pass the test of creditworthiness. If the contribution is used to pay some of the fees to financial intermediaries, for example, there are lower costs to be met with the yield on invested bond proceeds. If the contribution is invested in reserves or mortgages, there is increased revenue available to cover costs and an added cushion of assets backing the bonds.

METHODS OF SUBSIDIZATION

Nearly all of the mortgage revenue bonds issued in 1981 under the permanent rules received some form of state or local subsidy. Most common were cash contributions to the issue from the accumulated surpluses of state housing agencies or appropriations by states or counties. In other cases, surpluses of previously issued single-family bonds or of newly issued bonds for rental housing were pledged to new issues for owner-occupied housing.

Cash Contributions

Many state housing agencies have accumulated fund balances (the excess of assets over debts) of over \$10 million, which have been, in some cases, a source of accessible funds for cash contributions to bond issues (see tables in Appendixes A and B). The amount of fund balances varies widely from housing agency to housing agency. As a general rule, the older housing agencies have much larger balances than the newer ones, with some of the newest having no surplus balance.⁷ A few of the agencies have used some of their surpluses to finance other housing or energy conservation programs, and most of them have at least a portion of their fund balances committed as reserves for individual issues of bonds outstanding or as general reserves for additional security on all outstanding bonds. Not every housing agency, therefore, is able to contribute funds for new bond issues, even if the agency has a large net worth. Some of those that do have uncommitted fund balances may exhaust them with contributions to just one or two bond issues, although in many cases the agency can expect surpluses to continue to be generated from previously issued bonds.

7. In some cases, part of the surplus balance is from earlier state contributions.

Cash contributions (often called equity contributions) varied in amount from issue to issue in late 1981, but totaled 8.7 percent of the total amount of bonds issued for home mortgages.⁸ Alaska contributed \$53 million for two bond issues totaling \$200 million (26 percent), while the Oklahoma Housing Finance Agency contributed \$450,000 for a bond issue of \$100 million (0.45 percent). Louisiana contributed \$6 million to its new housing finance agency, \$3 million of which it pledged to its first bond issue (December 1981) of \$150 million (2 percent). Fresno County, California, contributed \$1.8 million to its \$40 million bond issue (4.5 percent). Table 1 provides the cash contributions for each issue.

Cash contributions to bond issues have been used mostly to fund reserves, because those reserves can earn an unrestricted yield that need not be rebated.⁹ The reserve earnings are used to pay costs that exceed costs covered by the allowed 100 basis points allowed, and to provide a cushion against improbable or unforeseeable events that would jeopardize the timely payment of debt service on the bonds. Alaska used most of its cash contribution to finance additional mortgages. Sometimes cash contributions are used to pay costs of issuance and underwriters' discount, which then often leaves the issue able to stand alone, because each dollar of bonds is backed by a dollar of assets.

As a general rule, cash contributions beyond a certain minimum simply provide greater security for the issue and secure a higher

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8. Excluded from this computation were contributions of an unspecified amount (for instance, an official statement sometimes states that the agency will pay for costs of issuance but does not specify the amount of such costs). Also excluded were the issues of Kentucky; Virginia; Montgomery County, Maryland; and Connecticut, which have indirectly subsidized their bonds by issuing them on a parity with other bonds or as general obligations of the agency. The other issues that had no cash contributions were averaged in as having made contributions of zero.
 9. Reserves funded by equity contributions are subject to the arbitrage rules dealing with invested sinking funds, in the opinion of most bond lawyers. The amount of total reserves that can be invested at unlimited yield, therefore, is restricted to no more than 15 percent of the sum of bond proceeds and reserves funded with nonbond proceeds.

TABLE 1. CASH CONTRIBUTIONS TO BONDS ISSUED FOR OWNER-OCCUPIED HOUSING UNDER THE ACT'S PERMANENT RULES

Issuer	Total Amount of Bond Issue (In millions of dollars)	Cash Contri- bution from Agency General Fund or State or Local Government (In millions of dollars)	Cash Contri- bution as Percentage of Total Bond Issue Amount
Bonds for Mortgages			
States			
Alabama HFA	100.00	3.75	3.7
Alaska HFC	100.00	29.50 ^a	29.5 ^a
Alaska HFC	100.00	23.30 ^a	23.3 ^a
Connecticut HFA	200.00	b	b
Hawaii HA	20.00	0.84	4.2
Idaho HA	30.07	2.52	8.4
Kentucky HC	36.00	e	e
Louisiana HFA	150.00	3.10	2.1
Michigan SHDA	25.00	0.95	3.8
New York SMA	104.75	c	c
North Carolina HFA	30.00	2.00	6.7
Oklahoma HFA	100.00	0.45	0.4
Rhode Island HMFC	40.00	0.94 ^d	2.3 ^d
Rhode Island HMFC	25.00	0.65 ^d	2.6 ^d
Tennessee HDA	50.00	8.66	17.3
Virginia HDA	100.00	e	e
Wisconsin	10.05	0.35	3.5
Wyoming CDA	75.00	4.00	5.3
Cities and Counties			
Fairfield RA, CA	22.62	0.83	3.7
Fresno County, CA	40.00	1.80	4.5
Newark RA, CA	21.40	0.0	0.0
Riverside County, CA	21.57	0.0	0.0
Larimer County, CO	8.00	0.0	0.0
Broward County HFA, FL*	25.00	0.30	1.2

(Continued)

TABLE 1. (Continued)

Issuer	Total Amount of Bond Issue (In millions of dollars)	Cash Contri- bution from Agency General Fund or State or Local Government (In millions of dollars)	Cash Contri- bution as Percentage of Total Bond Issue Amount
Bonds for Mortgages (continued)			
Cities and Counties (continued)			
Dade County HFA, FL	40.90	0.00 ^f	0.0 ^f
Duval County HFA, FL	18.61	0.00 ^f	0.0 ^f
Montgomery County HOC, MD	75.00	e	e
Washington County, MD	9.00	0.50	5.6
Central Texas HFC	6.11	0.00	0.0
East Texas HFC	10.71	0.00	0.0
Southeast Texas HFC	12.75	0.00	0.0
Bonds for Home- Improvement Loans			
States			
Arkansas HDA	16.00	0.85	5.3
Minnesota HFA	52.62	6.20	11.8
New Jersey MFA	15.07	1.00	6.6
Wisconsin HFA	9.99	3.90 ^e	39.0 ^e
Cities and Counties			
Chicago, IL	20.00	5.00 ^g	25.0 ^g
Allegheny County RA, PA	7.50	1.60 ^{e/g}	21.3 ^{e/g}
Philadelphia RA, PA	33.00	5.00 ^g	15.2 ^g

* Preliminary official statement analyzed.

(Continued)

TABLE 1. (Continued)

- a. In addition, an Alaska state legislative appropriation will pay the underwriters' discount, but the amount of the discount is not specified.
- b. The bonds are general obligations of the authority, ratably secured with \$1.2 billion in outstanding bonds.
- c. New York State contributes indirectly to the program by granting a credit against New York State franchise tax to the servicing banks comparable to a three-eighths percent service fee.
- d. Does not include the amount for costs of issuance, which will also be paid by the corporation.
- e. These bonds were issued under the same indenture and on a parity with previous series of bonds.
- f. Surpluses from bonds issued in 1980 may be made available to make payments on junior bonds.
- g. Community Development Block Grant funds.

bond rating (which lowers the interest rate on the bonds, enabling a lower rate to be charged on the mortgages, thus indirectly subsidizing the mortgage interest rate).¹⁰ Since funds remaining after all of the bonds are paid off and all expenses are paid usually revert to the general fund of the issuer, issuers can reasonably expect to be paid back a portion of their contributions, but usually only many years later.¹¹

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- 10. Cash contributions used to finance additional mortgages or to buy down mortgage interest rates also confer added benefits on homeowners.
 - 11. For example, the \$500,000 contribution that Washington County, Maryland, made to its bond issue is to be repaid to the county after all bonds have been paid off, and the county will earn interest on the contribution at 10 percent annually if funds permit.

Using Surplus From Other Housing Bonds

Virginia; Kentucky; Montgomery County, Maryland; and Connecticut, among others, issued new mortgage bonds on a parity with and under the same resolution as bonds that were outstanding.¹² This means that earnings from assets backing the outstanding bonds as well as those from assets purchased with the proceeds of the newly issued bonds are pledged to make debt payments on all the bonds. Shortfalls of earnings from the assets bought with the new bonds can, therefore, be made up with excess earnings from the outstanding bonds. This arrangement is only possible when the outstanding bonds were issued under an arrangement that explicitly permitted it.¹³

A slightly different approach uses a portion of the excess revenues generated from outstanding housing bonds to subsidize a new issue.¹⁴ In fact, some new bond issues for rental housing were structured explicitly to generate excess revenues for new owner-occupied issues. One way of doing this is to charge developers nonrefundable fees to participate in a multifamily program and to use those fees to pay the issuance costs of bonds for owner-occupied housing.¹⁵

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12. The Connecticut bonds were general obligations of the housing authority.
 13. By the legal terms of general bond resolutions, this arrangement cannot be used if the new issue of bonds would jeopardize the creditworthiness of the outstanding bonds, however.
 14. Debt service on the Dade County and Duval County, Florida subordinate bonds may be paid partly from surpluses generated from earlier issues of bonds for owner-occupied housing.
 15. The subsidization of a bond issue for owner-occupied housing with surplus from a new rental housing issue may be done by issuing bonds simultaneously for owner-occupied and rental housing. The Act allows an issue to be used for both kinds of housing, but stipulates that such an issue must meet requirements of regulations, and these regulations are yet to be prescribed.

SELF-SUPPORTING ISSUES

Although nearly all of the bonds issued under the permanent rules were made possible through sizable contributions, some self-supporting issues were marketed in 1981. They were issued using four approaches: a senior bond/junior bond structure, private placement, mortgage forgiveness, and fee reimbursement.

Senior Bond/Junior Bond

Newark, California; Dade County, Florida; and Duval County, Florida issued bonds using variants of the same approach.¹⁶ In all three cases, the assets--reserves and mortgages--purchased with proceeds of both the senior and junior bonds are pledged to repayment of both sets of bonds, but payment of the senior bonds takes priority. Earnings from the assets are used to make payments on the senior bonds until all of the senior bonds are paid off, and then used to make payments on the junior bonds.¹⁷ (In Dade and Duval Counties, payments on the junior bonds may be made from surpluses generated from previous bond issues, so those issues are not truly self-supporting.) Because these junior bonds are so risky, they were not rated by the rating agencies and carried very high interest rates.¹⁸ They were privately placed; the developer of houses to be financed with bond proceeds purchased the junior

16. Details of the structure of the three issues differ. This discussion summarizes the concept behind all three but does not describe any one of the three precisely.

17. In Newark, each year earnings from the assets are used to make payments first on the senior bonds and second, if earnings remain, on the junior bonds.

18. The interest rate on the junior bonds issued by Dade County is 18 percent.

bonds in Newark, and the underwriters purchased the junior bonds in Dade and Duval Counties.¹⁹

The junior bonds make up only about 5 or 6 percent of the total bond issue (about 2 percent in Dade County). For most issues, this represents approximately the amount of "non-asset" bonds whose proceeds are unavailable for investment in mortgages or reserves because they are used to pay initial out-of-pocket expenses, such as underwriters' discount; printing expenses; and the fees for lawyers, accountants, rating agencies and the trustee.

Since some bond proceeds have always been used to pay initial expenses, there have always been more bonds outstanding initially than assets backing the bonds. Under prior law, however, the yield on the assets (mortgages and reserves) was allowed to be high enough above the yield on the bonds so that a dollar of assets easily paid off more than a dollar of bonds. Under the new rules limiting the yield on mortgages and reserves, the rating agencies do not consider the bonds to be creditworthy unless there is a subsidization or if the senior and junior bonds are separated. The rating agencies are satisfied if all of the assets are pledged to only 94 or 95 percent of the bonds, which are issued as senior bonds. The junior bonds are not rated; their purchasers are willing to buy them because of their high interest rates and

19. The junior bond/senior bond approach may not be widely used in the future. The market for the junior bonds is very limited, because they are unrated and must be privately placed. In addition, many bond lawyers hesitate to approve these issues, because it is so difficult to prove that the purchasers of the junior bonds paid a fair market price for them. If a developer pays more than the market price for the bonds, for instance, the extra amount paid is assumed to be borne by the mortgagors and might bring the mortgage yield above the allowed maximum.

because they are willing to assume a level of risk unacceptable to the rating agencies.²⁰

Private Placement

Four counties in Colorado (Aurora, El Paso, Larimer, and Summit) and three municipal governments in North Carolina (Shelby, Charlotte, and Greensboro) issued bonds under the permanent rules that were unrated and privately placed with investors. Weld County, Colorado, issued bonds that were unrated but publicly marketed. By privately placing the bonds rather than marketing them publicly, the issuers were able to reduce the costs (particularly underwriters' discount) that had to be covered within the 100 basis point spread. More important, however, by not having the bonds rated, the issuers did not have to prove the creditworthiness of the issues under all of the scenarios required by the rating agencies. In effect, the rating agencies might consider these bonds not to be a secure investment.

Mortgage Forgiveness and Fee Reimbursement

Riverside County, California, and central, east, and south-east Texas issued bonds without any kind of contribution from the issuer. They all charged homebuyers interest rates that would exceed the rates allowed under the arbitrage rules except for the assumption that some fees will be rebated or some homebuyers will receive mortgage forgiveness that will effectively lower the interest rates on their loans. In Riverside County, California, bonds will be paid off immediately as principal payments on the mortgages are received; all mortgage principal outstanding when the

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20. The rating agencies test the creditworthiness of an issue under a variety of scenarios, some of which the purchasers of the junior bonds may consider unduly pessimistic. In addition, the purchasers of the junior bonds may feel that they understand the issue so well that they are confident that they will be paid back, although the rating agencies would have no reason to be so confident.

last bonds are paid off will be forgiven.²¹ In the Texas issues, sellers/developers were charged participation fees of 5.6 percent of mortgage principal, a portion of which will be rebated to them should sufficient funds become available after all bonds are paid off.²² Since compliance with the arbitrage provisions dealing with mortgage interest rates is determined at the time the bonds are issued and is based on many assumptions, such as how long the mortgage debt will be outstanding, the issuers need only show that under reasonable assumptions the effective mortgage interest rate is expected to be within 100 basis points of the yield on the bonds. If these assumptions turn out to be incorrect, no violation of the arbitrage rules will occur, but mortgage interest rates may have exceeded bond interest rates by more than 100 basis points.²³

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21. Forgiving indebtedness has the effect of lowering the effective interest rate on the loan. For example, if A lends B one dollar at a nominal interest rate of 10 percent for one year, B must repay A \$1.10 at the end of the year. If, at that time, A forgives B ten cents of B's indebtedness, B need only repay \$1, for an effective interest rate of zero. Forgiving indebtedness only for homeowners who still have debt unpaid when the last bonds are redeemed may reduce the average effective mortgage interest rate by 30 or 40 basis points, but it creates a large variation in the effective mortgage rates of individual homeowners. All who prepaid their mortgages prior to the magic date get no reduction, while the others may be forgiven as much as half of their mortgage principal. Some issuers may reject the mortgage forgiveness approach because of this unequal treatment.
 22. Fees paid by sellers are treated for arbitrage purposes as borne by the mortgagors and thus add to the mortgage yield. The Texas issuers are only including in mortgage yield the portion of seller fees that they assume will not be rebated.
 23. The average mortgage interest rate might actually turn out to be less than 100 basis points above bond yield under the mortgage forgiveness approach, because under certain conditions, large amounts of mortgage principal would be forgiven.

NET EFFECT OF THE ARBITRAGE RULES

The net effect of the new arbitrage rules in channeling the subsidy to homebuyers and in producing the lowest possible mortgage interest rates is unclear. The yield on mortgages (coupled with the yield on reserves and assets purchased with contributed funds) must be high enough to cover program costs. Therefore, if the act has pushed all costs up or down, it probably has affected mortgage rates in a similar fashion. As described below, however, some costs have decreased and some have increased. Issuers have generally contributed cash to issues (some of which was used to buy down mortgage rates) and no longer expect the issues to generate surpluses or to cover the administrative costs of housing agencies. Most investment bankers and lawyers active in structuring bond issues conclude, however, that the net effect of the legislation has not been to lower mortgage interest rates.

Effects on Fees

Fees to many of the financial intermediaries--lending institutions, underwriters, and lawyers--have come down somewhat, but not for every participant in every issue. The willingness of lending institutions and others to accept lower fees may not persist once the housing market improves and demands for their services resume historical levels, however. In many cases, participants are being paid the same fees as before, but have assumed more duties and are exposed to greater risk.

At the same time that funds available to pay fees have decreased, the act has increased the burdens placed on participants. In many cases, participants claim that they are not recouping fully their start-up costs, such as resolving new legal issues, educating program administrators and potential borrowers, preparing new forms and documents, and creating ways to structure bond issues to comply with the new law.

In addition, the act imposes new administrative costs on issuers. They have to collect information from homebuyers and sellers to verify compliance with provisions such as the first-time homebuyer and purchase-price rules, and they have to set up new accounting procedures to comply with the arbitrage provisions. Some of the participants are subject to greater risk than before. Lenders, for instance, are often required to repurchase mortgage loans found not to comply with the act's provisions, even though

the discovery of noncompliance might not be made until years after the loans were sold to the issue.²⁴

Loan Origination and Servicing Fees. Fees for loan servicing and origination have come down in many instances. Loan origination fees of 1 or 1.5 percent and servicing fees of three-eighths of a percent used to be standard, and are still being paid in most cases. In other cases, however, loan origination fees have lowered to three-fourths of a percent or 1 percent, and servicing is frequently only one-fourth of a percent.²⁵

Mortgage Insurance Premiums. As a direct result of the act, fees paid for mortgage insurance have increased in many cases. Many issuers are substituting greater levels of primary mortgage insurance for mortgage pool insurance, since the act requires premiums for pool insurance to be recovered within the 100 basis point spread, but allows premiums for primary mortgage insurance to be recovered outside the spread.²⁶ Homeowners pay premiums for primary mortgage insurance in addition to their monthly mortgage

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24. In many cases, housing agencies have always required lenders to verify homeowner income and to repurchase unqualified loans, but the repurchase requirement generally was in force for only a short time.
 25. The local lending institutions that originated the mortgages almost always used to service them as well. Many local lenders are still servicing the loans, and some are now accepting servicing fees of 25 basis points compared to the 37.5 basis points previously charged. In Oklahoma, the local lenders are receiving servicing fees of only 21 basis points. Some issuers are hiring local lenders to originate the loans and a national servicer that charges only 25 basis points to service them.
 26. The act allows insurance charges to be recovered outside the spread only "to the extent such amount does not exceed amounts charged in such area in cases where owner-financing is not provided through the use of qualified mortgage bonds." (I.R.C. §103A(i)(2)(B)). Since primary mortgage insurance is often required on mortgages that are not financed with bonds, but pool insurance is not, premiums for the former are recoverable outside of the spread, but premiums for the latter are not.

payments. Since these premiums are sometimes 20 or 25 basis points higher than they used to be, this translates directly into higher total monthly payments for the homeowners.²⁷

27. Primary mortgage insurance policies cover losses on individual mortgages up to a certain amount of loss per mortgage. Homeowners are usually required to purchase primary mortgage insurance only if their downpayment is under 20 percent. This insurance usually covers the difference between the mortgage loan amount and 72 percent of the value of the house. If a homeowner defaults, the bondholders are left with 72 percent of the value of the house uninsured. Mortgage pool insurance provides an additional level of coverage for the bondholders. It usually covers 100 percent of the losses resulting from defaults, but only up to a total policy limit of 10, 15, or 20 percent of the aggregate principal amount of the mortgages.

The combined cost of primary and pool insurance used to be about 30 basis points for most issues (25 basis points for primary plus 5 basis points for pool), while costs for mortgage insurance now sometimes total 50 or 60 basis points. The issues that now use no pool insurance typically require that the mortgages be insured 100 percent by primary mortgage insurance. When this is FHA insurance, it costs the mortgagors 50 basis points each year (in addition to the nominal interest rate that they are charged). When it is private mortgage insurance, the charge varies from about 40 to 60 basis points, depending on the loan-to-value ratio of the mortgage. (See the footnotes to Dade County, Florida in Appendix A.)

In addition to primary mortgage insurance, homeowners are required to maintain standard homeowners' insurance policies, and the trustee maintains a special hazard insurance policy covering losses not normally covered by the standard homeowner policy, such as those caused by earthquakes or mudslides. Most of the mortgage revenue bond issues now are covered by a cash flow insurance policy (also called advanced claims coverage), under which the pool insurer agrees to advance to the trustee payments on mortgages that are delinquent 30, 60, or 90 days, depending on the type of coverage. Mortgage insurance premiums are regulated by the states.

Bond Insurance Premiums. Several bond issues are now covered by bond insurance, under which an insurer agrees to make the scheduled payments on the bonds in the event that other funds are not available to do so.²⁸ This coverage is extremely expensive. In Fresno County, California, for example, coverage on a \$40 million bond issue cost \$1.16 million. Many lawyers believe that premiums for bond insurance can be recovered outside of the 100 basis point spread on the theory that the bond insurance makes the bonds more secure and hence reduces the interest rate on the bonds and produces more than enough interest savings to compensate for the cost of the premium.

Effects on Bond Interest Rates

Several provisions of the act may be increasing interest rates on the bonds. These higher rates can be passed along as higher interest rates on the mortgages. Many analysts claim that the registration requirement will initially push up interest rates on the bonds by at least 25 basis points (see Chapter IV). In addition, to the extent that the act restricts the yields on investments made with bond proceeds, the security for the bonds has been reduced (unless there are large equity contributions or other subsidization).²⁹ It is now much more difficult to achieve a double-A rating on bond issues for owner-occupied housing, for instance, and the lower ratings translate into higher interest rates on the bonds.³⁰

Some analysts feel that including underwriters' discount within the 100 basis point spread can serve sometimes to push up the interest rate on the bonds. Underwriters' discount can be reduced in two ways that might have this effect. First, the discount is much lower when bonds are privately placed with an

28. The following issues are insured by the American Municipal Bond Assurance Corporation (AMBAC): Riverside County, California; Duval County, Florida; central, east, and southeast Texas; and Fairfield, California.

29. In addition, it is no longer possible to use profit made on reserves to subsidize mortgage interest rates.

30. Higher interest rates on the bonds compensate bondholders for the added risk.

investor than when they are offered to the public. But the market for private placements is currently rather limited, and the large bond funds that appear to be the most likely potential purchasers of these bonds might demand a higher interest rate for a private placement than for a public offering. Second, underwriters' discount can be reduced by cutting the commissions that bond traders receive for selling the bonds. The bonds, however, cannot be sold if their commissions are below those on other bonds, unless they are easier to sell. This can be accomplished by giving them a higher interest rate.

Most lawyers feel that fees paid to banks for letters of credit must be paid out of the 100 basis point spread. The Louisiana Housing Finance Agency, however, issued bonds with two sets of coupons. Both sets of coupons will be paid to bondholders, who will forward one set to a bank in exchange for the bank's agreeing to purchase the bonds at par at the end of five years. The issuer considered these supplemental coupons to be interest on the bonds rather than fees to the bank. The coupons have the effect, therefore, of increasing the interest rate on the bonds, which may increase the rates on the mortgages.

Summary of Net Effects

The success of the arbitrage rules in reducing mortgage interest rates and hence directing the subsidy to homeowners is uncertain. On the one hand, fees for some services--loan origination and servicing in particular--have come down. In addition, points paid by developers and other house sellers may have come down, since they are now explicitly taken into account in mortgage yield. Large cash subsidies can also be used to reduce mortgage interest rates, and housing agencies now rarely expect to receive any funds from an issue to cover administrative expenses.

On the other hand, premiums for insurance have risen in many cases, and several provisions of the act may have raised bond interest rates, which then can cause higher mortgage interest rates. As discussed in Chapter II, however, market conditions generally are forcing issuers to offer the lowest mortgage interest rates possible. It should also be noted that most issuers are not trying to take advantage of homebuyers by charging them the highest possible interest rate that they can; in fact, many did not charge mortgagors the entire 150 basis points above bond yield allowed under prior law.

REBATES OF EXCESS ARBITRAGE EARNINGS

When the bonds are issued, the issuers must elect whether to pay excess arbitrage earnings on the nonmortgage investments to the federal government or to the mortgagors. The designated recipients are listed in the table in Appendix A for each issue, and are about equally divided between the federal government and mortgagors. In many cases, however, issuers actually expect to rebate very little, if any, money, because the issues are structured to generate no excess arbitrage earnings. Either the reserves are fully funded by outside cash contributions, the earnings on which are exempted from the rebate requirement, or the reserves are invested pursuant to a long-term contract with a financial institution at rates equal to or below the interest rates on the bonds.³¹

SLIDING SCALE ARBITRAGE SPREAD PASSED BY THE SENATE

In the Miscellaneous Tax Bill, the Senate passed a provision that would increase the spread allowed between mortgage and bond yields, from the currently allowed 100 basis points to between 106.25 and 112.50 basis points, depending on the amount of the issue. If the aggregate face amount of an issue is \$100 million or more, the maximum spread would be 106.25 basis points, with the maximum spread increasing by 1 basis point for each \$10 million reduction in bond amount, to a maximum spread of 112.5 basis points for issues of \$30 million or less.

Lawyers, investment bankers, and housing agency officials unanimously feel that the larger spread would make it easier to issue bonds, although most feel that some outside contribution would still be necessary. (Of course, the Congress may not view this as a negative factor, since it may want to encourage state or local subsidization.)

Some feel that it is logical to allow a sliding scale spread dependent on issue amount, while others disagree. The sliding

31. Another result of the act has been much smaller reserves in general (see the table in Appendix A). The smaller reserves have been compensated for in part by letters of credit and cash flow advance riders on mortgage pool insurance.

scale makes sense in that some of the costs that now must be recovered within the spread are costs that are fixed (and thus make up a larger percentage of bond amount for small than for large issues). On the other hand, issuers planning to issue more than \$100 million of bonds in a year could simply calculate whether it is to their advantage to issue one large bond issue or to break it up over the course of the year into several smaller issues. The large issuers would thus receive the advantage of the highest spread either way, but might spend more on transactions costs with a sliding scale. In addition, the very smallest issues are private placements that generally have the lowest costs of issuance.

CHAPTER IV. EFFECTS OF OTHER PROVISIONS ON BONDS FOR OWNER-OCCUPIED HOUSING

This chapter describes briefly the experience with the following provisions of the 1980 act that apply to bonds for owner-occupied housing:

- o Limits on the volume of bonds that can be issued;
- o Targeted area restrictions;
- o First-time homebuyer restrictions;
- o Limits on house purchase prices;
- o Registration requirement;
- o Limits on bonds for veterans' housing; and
- o Limits on bonds for home-improvement loans.

VOLUME LIMITS

The act limits the volume of bonds that can be issued annually in any state for owner-occupied housing (other than housing for veterans) to the greater of \$200 million or 9 percent of the annual volume of state mortgage originations averaged over the previous three years. These limits generally did not constrain bond issuances in 1981, since only Alaska and Connecticut issued their fully allowed allotment.

According to "safe-harbor" limits published by the Treasury Department, 32 states and the District of Columbia were bound in 1981 by the \$200 million limit, 16 states by limits between \$200 million and \$650 million, one state (Texas) by a limit of \$775 million, and one state (California) by a limit of \$2.2 billion.¹ Table 2 shows the 1981 volume limits for each state, and also the dollar amount of bonding authority per capita for each state. The formula favors sparsely populated states. Alaska may issue \$500 in

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1. Issuers have the choice of using limits established by the IRS (called "safe-harbor" limits) or totals based on their own data. See Internal Revenue Service News Release #IR-81-91 (August 6, 1981) pp. 1-2.

TABLE 2. 1981 LIMITS ON BOND VOLUME BY STATE

State	1980 Popula- tion ^a (In thou- sands)	Average Annual Mortgage Origin- ations 1978-1980 ^b (In millions of dollars)	1981 State Ceiling Limitation Safe Harbor ^b (In millions of dollars)	Per Capita Bonding Authority (In dollars)
Alabama	3,890	1,364	200.0	51
Alaska	400	182	200.0	500
Arizona	2,718	2,261	203.5	75
Arkansas	2,286	909	200.0	87
California	23,669	24,640	2,217.6	94
Colorado	2,889	3,431	308.8	107
Connecticut	3,108	1,967	200.0	64
Delaware	595	299	200.0	336
District of Columbia	638	475	200.0	313
Florida	9,740	6,832	614.9	63
Georgia	5,464	2,239	201.5	37
Hawaii	965	733	200.0	207
Idaho	944	519	200.0	212
Illinois	11,418	7,024	632.2	55
Indiana	5,490	2,458	221.2	40
Iowa	2,913	1,331	200.0	69
Kansas	2,363	1,311	200.0	85
Kentucky	3,661	1,347	200.0	55
Louisiana	4,204	1,640	200.0	48
Maine	1,125	387	200.0	178
Maryland	4,216	2,671	240.4	57
Massachusetts	5,737	1,555	200.0	35
Michigan	9,258	4,030	362.7	39
Minnesota	4,077	2,664	239.8	59
Mississippi	2,521	898	200.0	79
Missouri	4,917	2,454	220.9	45
Montana	787	469	200.0	254
Nebraska	1,570	1,020	200.0	127
Nevada	799	1,084	200.0	250
New Hampshire	921	425	200.0	217
New Jersey	7,364	3,552	319.7	43
New Mexico	1,300	722	200.0	154
New York	17,557	4,588	412.9	24
North Carolina	5,874	1,848	200.0	34
North Dakota	653	375	200.0	306
Ohio	10,797	6,004	540.4	50

(Continued)

TABLE 2. (Continued)

State	1980 Popula- tion ^a (In thou- sands)	Average Annual Mortgage Origin- ations 1978-1980 ^b (In millions of dollars)	1981 State Ceiling Limitation Safe Harbor ^b (In millions of dollars)	Per Capita Bonding Authority (In dollars)
Oklahoma	3,025	1,824	200.0	66
Oregon	2,633	1,440	200.0	76
Pennsylvania	11,867	4,782	430.4	36
Rhode Island	947	214	200.0	211
South Carolina	3,119	1,100	200.0	64
South Dakota	690	321	200.0	290
Tennessee	4,591	1,964	200.0	44
Texas	14,228	8,616	775.4	54
Utah	1,461	1,349	200.0	137
Vermont	511	225	200.0	391
Virginia	5,346	3,433	309.0	58
Washington	4,130	2,666	239.9	58
West Virginia	1,950	460	200.0	103
Wisconsin	4,705	2,200	200.0	43
Wyoming	471	453	200.0	425

a. Bureau of the Census, 1980 Census of Population and Housing Advance Reports (April 1981), p. 4.

b. Internal Revenue Service News Release, #IR-81-91 (August 6, 1981), pp. 1-2.

bonds for each resident, while New York may issue only \$24 for each resident.

Although the act specifies a formula for allocating a state's total bonding authority among political jurisdictions within the state, it also gives governors and state legislatures authority to prescribe a different intrastate allocation. Many governors and legislatures have used this authority, most typically to allocate

all of the state's authority to a state housing agency. The California legislature enacted a complicated formula allocating bonds within California: one-third to be divided among four state agencies, one-third to local agencies with programs restricted to low- and moderate-income families, and one-third to local agencies for a broader range of housing programs.²

TARGETED AREA PROVISIONS

The act designates certain census tracts as targeted areas and allows states to nominate other areas for designation. It also requires that at least 20 percent of the lendable proceeds of each bond issue be reserved for mortgages in these targeted areas, with certain exceptions. If there are no designated census tracts within an issuer's jurisdiction, for instance, it need not reserve any mortgage funds for this use.

To a certain extent, jurisdictions that contain many qualified census tracts are put at a disadvantage by the targeted area provisions, simply because they have to comply with more restrictions than other jurisdictions. In addition, these jurisdictions may have fewer secure loans in their portfolios, take longer to make all of the loans, encounter difficulties in persuading private lenders to originate loans for sale to the program, and so forth. The targeted area provisions thus may have the effect of favoring affluent areas that do not contain targeted areas and small jurisdictions (the smaller the jurisdiction the less likely it is to contain qualified census tracts). The limits on the purchase prices of houses in targeted areas exceed the limits on houses in other areas, and buyers of houses in targeted areas are not required to be first-time homebuyers, but these advantages are small compared to the disadvantages of having to set aside funds for mortgages in targeted areas.

Of the 31 official statements analyzed in Appendix A, only seven stated that the full 20 percent of lendable funds was going

2. Although the Internal Revenue Service safe harbor total for California was \$2.2 billion for 1981, the California Office of Planning and Research estimates that California's limit for 1982 is \$3.2 billion.

to be reserved for targeted areas. Ten explicitly stated that no funds would be reserved for targeted areas, 12 were going to reserve between zero and 20 percent, and the others were ambiguous. In practice, many jurisdictions often reserve less than 20 percent of lendable funds because many jurisdictions contain no census tracts that automatically meet the definition of targeted areas, and most do not apply to have areas of chronic economic distress designated as targeted areas.

In other jurisdictions that do contain at least one qualified census tract, the issuer may set aside less than 20 percent for targeted areas, because the act only requires the lesser of 20 percent of lendable funds or 40 percent of the market share of targeted areas. Some qualified census tracts happen to contain cemeteries, army bases, or areas in which nearly all housing is rental rather than owner-occupied, so the 40 percent rule may require that only a small share of mortgages be made in these areas.³ The regulations provide a safe-harbor formula for calculating the amount of required funds under the 40 percent rule. The safe-harbor required portion is 20 percent of the average annual amount of mortgages originated statewide, multiplied by the percentage of state population residing in targeted areas. Thus, if the qualified census tracts within an issuer's jurisdiction are either sparsely populated or ones in which few mortgages have been made recently, the issuer need not set aside 20 percent of funds for mortgages in targeted areas.

A somewhat different problem with the qualified census tracts is that they are defined on the basis of census data that, in 1981, was ten years old. In the course of that ten-year period, many neighborhoods changed significantly, so that some qualified census tracts have become affluent areas since 1970, while during the same period other neighborhoods have deteriorated.

Only eight of the issuers listed in Appendix A have applied to have additional areas designated as targeted areas. Three of these

3. Some issuers are reluctant to use the 40 percent rule because of the costliness of assembling the data necessary to use it and because of the possibility that the data and the resulting figure could be challenged by the IRS.

issuers have set aside 20 percent of lendable funds for mortgages in targeted areas. Wyoming has applied for some targeted area designations, even though there are no qualified census tracts in the state.

FIRST-TIME HOMEBUYER RESTRICTION

Many state and local governments have always imposed low-income limits on homebuyers whose mortgages are financed by tax-exempt bonds, and a large portion of these homebuyers had never owned houses before.⁴ For many issuers, therefore, the first-time homebuyer rule did not affect their programs much other than to impose additional administrative requirements.⁵ One person commenting on the first-time homebuyer and purchase price requirements said that some local issuers feel that the requirements define a public purpose for the bonds and thereby relieve local governments from that responsibility.

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4. Statistics compiled by the Fairfield, California Redevelopment Agency, for instance, show that 90 percent of home purchasers who received mortgages from a 1980 Fairfield bond issue were first-time homebuyers. Similarly, the Council of State Housing Agencies conducted a study in 1979 of ten state agencies and found that 86 percent of mortgage recipients were first-time homebuyers. (Council of State Housing Agencies, The History of Tax-Exempt Financing for Housing Development, p. 6).
 5. In November 1981, the Treasury Department issued amendments to the proposed regulations outlining procedures that an issuer can use to verify that homeowners are first-time homeowners. Before issuance of those amendments, there was a great deal of uncertainty and uneasiness with the first-time homebuyer restriction from an administrative perspective. Most issuers now require mortgage applicants to submit copies of their federal income tax returns for the previous three years, since no deductions for mortgage interest or property tax is partial proof that they did not own houses. This poses a problem for some applicants who do not keep copies of their returns and who often need the copies more quickly than they can be obtained from the IRS.

Some people consider the first-time homebuyer rule unfair, since it makes available below-market rate mortgages to some affluent households and denies assistance to low-income families that have previously owned mobile homes or houses of very low quality and to families whose houses were destroyed by a natural disaster. They feel that a purchase price limit alone would accomplish much of the intent of the first-time homebuyer rule and relieve much of the administrative burden.

Although federal law does not explicitly limit homeowner income, state law often does (for some bonds issued in California and Florida, for instance), and nearly every issuer itself limits income. The limits usually vary depending on household size and, sometimes, on location. Income limits for each issue are listed in the table in Appendix A and average about \$32,000. Some issuers impose asset limits as well.

PURCHASE PRICE LIMITS

The act also restricts the prices of houses that can be purchased with mortgages financed by tax-exempt bonds. The maximum purchase price varies from area to area, whether the house is new or used, and whether it is located in a targeted area.⁶ In August 1981, the Internal Revenue Service (IRS) published safe-harbor limitations for the prices of single-family houses. Nearly all issuers are relying on these safe-harbor figures, because it would usually be costly to gather their own statistics.

The safe-harbor limits range from a low of \$33,000 for existing houses in northeast Pennsylvania to a high of \$144,000 for existing houses in San Jose, California. In 90 percent of the locations, the limit for new houses is higher than the limit for existing houses, often by as much as \$30,000. The variation in

6. The limit for new houses located outside of targeted areas is 90 percent of the area median price of new houses (for existing houses, it is 90 percent of the area median price of existing houses). Limits in targeted areas are 110 percent of the area median price of new and existing houses. Limits on existing 2-4 family houses are somewhat higher. Rehabilitated houses, even those that have been substantially rehabilitated, are subject to the limits for existing rather than new houses.

purchase price limits within states is sometimes wide. The limits in New Haven, Connecticut, for instance, are \$62,000 for existing houses and \$74,700 for new houses, while the limits in Stamford, Connecticut, are \$142,600 and \$142,000, respectively.

The table in Appendix A lists the purchase price limits imposed by each issuer for new and existing houses, inside and outside targeted areas. In nearly every case, the limits are the same as the safe-harbor limits, but some issuers (Idaho and Montgomery County, Maryland) imposed limits below the safe-harbor limits, and Fresno County, California, and Alaska are using limits higher than the safe-harbor limits.

No one knows exactly what percentage of mortgages financed with tax-exempt bonds are for newly constructed houses as opposed to existing houses. Only a few of the official statements of bonds issued under the permanent rules contained this information.⁷ The Congressional Budget Office telephoned the ten largest 1981 issuers of bonds issued under the permanent rules to learn what percentage of loan funds from their most recent bond issues they expect will be used for mortgages on new houses. Table 3 summarizes the data from these conversations and shows that the percentage for new housing varies widely--from 10 percent in Rhode Island to 95 percent in Montgomery County, Maryland. The average for the group is 45 percent.

REGISTRATION REQUIREMENT

Beginning on January 1, 1982, all tax-exempt bonds for housing must be issued in registered form, meaning that the trustee or some other party must have a current record of the names of all bondholders. The requirement was instituted for several reasons. Since no record of the names of owners of bearer bonds (unregistered bonds) is maintained, holders of these bonds may avoid estate and gift tax due on them. In addition, without a list of bond-

7. Several issues in California finance only new housing developments.

TABLE 3. PERCENTAGE OF MORTGAGE FUNDS THE TEN LARGEST 1981 ISSUERS EXPECT TO USE FOR NEWLY CONSTRUCTED HOUSING^a

Issuer	Amount of Issue (In millions of dollars)	Amount for Mortgages (In millions of dollars)	Amount for Mortgages on New Housing ^b (In millions of dollars)	Percentage of Mortgage Funds for New Housing
Connecticut HFA	200.00	170.6	30.0	18
Louisiana HFA	150.00	134.1	63.7 ^c	48
New York SMA	104.75	89.0	26.7	30
Alabama HFA	100.00	87.6	61.3	70
Alaska HFC	200.00	235.5	82.4	35
Oklahoma HFA	100.00	97.5	Unknown ^d	Unknown ^d
Virginia HDA	100.00	85.3	59.7	70
Wyoming CDA	75.00	64.9	58.4	90
Montgomery Co., Md. HOC	75.00	66.1	62.8	95
Rhode Island HMFC	<u>65.00</u>	<u>63.2</u>	<u>6.3</u>	<u>10</u>
Total	1,169.75	1,093.8	451.3	45 ^e

a. This sample represents about 70 percent of the total bonds issued in 1981 for owner-occupied housing (excluding general obligation bonds for veterans' housing) under the permanent rules of the Mortgage Subsidy Bond Tax Act.

b. Mortgages on newly constructed housing include mortgages for qualified rehabilitation.

c. This represents the minimum required by the program for loans for new housing.

d. In this program, the mortgage loans are given out on a first-come/first-served basis. Therefore, the agency cannot predict what percentage of the loan money will be used for new housing.

e. Percentage is based on nine issuers and excludes Oklahoma.

holders, the IRS cannot easily exact tax due on interest on bonds that do not meet the requirements of the act.⁸

Other than some energy bonds, housing bonds are the only municipal bonds to which the registration requirement currently applies.⁹ Many people fear that the registration requirement has narrowed the market for housing bonds and that many purchasers will shift to other kinds of tax-exempt bonds unless housing bonds carry higher interest rates.¹⁰ It is premature to speculate how much the registration requirement will cost in terms of higher interest rates on the bonds. Most analysts believe that initially the cost will be at least 25 basis points, and could be as much as 50 basis points, but they are awaiting some experience with the requirement before coming to a final conclusion. The interest rate penalty will probably diminish once a secondary market for registered municipal bonds is developed or if the requirement is extended to all municipal and federal government bonds.¹¹

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8. See The Mortgage Subsidy Bond Tax Act of 1979, Report on H.R. 5741, Report No. 96-6/8, p. 27.
 9. The Crude Oil Windfall Profit Tax Act of 1980 (Public Law 96-223) authorized the issuance of tax-exempt bonds for some hydroelectric facilities, solid waste disposal facilities, and renewable energy property and required that these bonds be issued in registered form (I.R.C. Section 103(h)).
 10. The registration requirement would reduce demand for the bonds on the part of investors who wish to keep their wealth and income unknown and on the part of other investors who may want to sell their bonds at a later date and so are concerned about the size of the resale market. In addition, at the present time, registered municipal bonds may be less liquid than other municipal bonds. If all municipal bonds were registered, a computerized system for their transfer would probably be established, but for now transferring housing bonds is a little more difficult than transferring other tax-exempt bonds.
 11. The Administration has proposed requiring that all tax-exempt bonds for private purposes be issued in registered form,

(Continued)

BONDS FOR VETERANS' HOUSING

The act exempts bonds for veterans' housing from nearly all restrictions, if the bonds are general obligation bonds, backed by the full faith and credit of the state, and are not used to replace or acquire existing mortgages.¹² California and Oregon are the only states that issued general obligation bonds for veterans' housing in 1981, but their veterans' bond total of \$870 million was about 20 percent of all tax-exempt bonds issued for owner-occupied housing in 1981.¹³

Oregon has been issuing tax-exempt general obligation bonds for veterans' housing since 1945 and is the largest mortgage lender statewide and one of the largest nationwide. Oregon has issued a total of \$5.9 billion in bonds for veterans' housing, of which \$5.25 billion is outstanding. Except for the requirement that borrowers be veterans and longstanding state residents, no restrictions are placed on them or the houses that they purchase. Mortgage loans are limited to \$50,000.

beginning on January 1, 1983. See Department of the Treasury, General and Technical Explanations of Tax Revisions and Improved Collections and Enforcement Proposals (February 26, 1982).

12. This requirement has presented problems for California and Oregon. In California, when the state runs out of bond funds with which to make mortgages, it encourages veterans to obtain mortgages from private lenders and then to refinance once the state has issued more tax-exempt bonds and again has funds available for below-market-rate mortgages. In Oregon, veterans often get private financing initially if their mortgage amount exceeds the limit imposed by Oregon for veterans' mortgages and then refinance with a bond-financed mortgage once they have paid off enough principal so that the balance is below the mortgage limit.
13. Based on figures supplied by Fred Thompson, Department of Housing and Urban Development.

California first issued tax-exempt housing bonds for veterans of World War I and has over \$2 billion in veterans' bonds outstanding. Although most of the bonds are general obligations of the state, about \$500 million in revenue bonds for veterans' housing was issued in 1980. In 1981, California again issued general obligation bonds for veterans' housing (\$250 million) and plans to continue to do so. Bond-financed loans are limited to \$55,000, although homeowners can get additional financing from a private lender so that total indebtedness can be more than \$55,000. Borrowers must be native Californians or have been California residents at the time they entered active service, but no other restrictions are imposed on them or the houses that they purchase.

Wisconsin issued its first tax-exempt bonds for veterans' housing in 1974 and has to date issued a total of \$1.152 billion. Bonds issued through May 1975 were revenue bonds, those between August 1975 and December 1979 were general obligation bonds, and those issued since April 1980 have been revenue bonds. Because the \$10 million in bonds issued in August 1981 were revenue bonds, they had to meet all of the act's requirements (see footnotes to the table in Appendix A). Legislation is pending before the Wisconsin legislature to reauthorize the issuance of general obligation bonds for veterans' housing. Wisconsin has always imposed limits on the income of borrowers and the price of houses that they can buy. Between 1977 and 1981, 42 percent of the loans went to veterans whose income fell below \$17,000. The remainder had incomes below \$25,000.¹⁴

BONDS FOR HOME-IMPROVEMENT LOANS

The act authorizes bonds to be issued for home-improvement loans and rehabilitation loans as well as for home mortgages. Eight issues of bonds to finance home-improvement loans were issued under the permanent rules of the act in 1981, totaling \$155 mil-

14. Figures are for the period between July 1, 1977 and March 31, 1981 and are from page A-2 of the official statement of the \$10.055 million bond issue of August 1, 1981.

lion.¹⁵ Appendix B is a table and footnotes describing each issue of these bonds.¹⁶ In the seven issues analyzed, all loans will be Title 1 loans insured by the Federal Housing Administration (FHA), and payable over a 15-year period. Under the terms of the Title 1 program, home-improvement projects financed with these loans must improve the basic livability or energy efficiency of the house. Eligible improvements include such items as plumbing or electric system renovation, kitchen remodeling, and additions to living space. Loans for swimming pools, tennis courts, and saunas are not allowed.

Home-improvement bonds are subject to all of the requirements of the act dealing with owner-occupied housing, except the purchase-price and first-time homebuyer rules, and are limited in size to \$15,000 each.¹⁷

Each home-improvement issue was subsidized by outside contributions.¹⁸ Table 1 in Chapter III shows the amount of cash subsidy per issue. The average cash contribution for the bonds for

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15. Several of the bond issues for mortgages on owner-occupied housing (Washington County, Maryland, for example) allowed a portion of the mortgages to be used for rehabilitated houses. The requirements for rehabilitation loans are stricter than those for home-improvement loans. Qualified rehabilitation loans can only be made for houses that have not been rehabilitated in 20 years, and for large expenditures.
 16. Appendix B contains information on each issue except for \$1 million of bonds issued by Palo Alto, California, to finance solar energy devices for owner-occupied houses.
 17. The Title 1 program allows larger loans for 2-4 family houses, but the act limits the loans to no more than \$15,000 per house. Home-improvement loans on one-family houses that are rented, rather than owner-occupied, cannot be financed with these bonds; they can only be financed by rental housing bonds.
 18. In fact, state and local governments have subsidized bonds issued for housing rehabilitation and home improvement loans (see, for example, the footnotes to the Wisconsin issue in Appendix B).

home improvement loans was 13.2 percent of the bond amount, compared to 8.7 percent for bonds for home mortgages.¹⁹ In three cases, the contribution consisted of Community Development Block Grant (CDBG) funds used to fund reserves and often to buy down the interest rates on loans to low-income people or to people upgrading houses in targeted areas. In several cases, different interest rates are being charged to homeowners on a sliding scale, depending on household income and the location of the house.

19. The average for home-improvement loan bonds excludes the issues of Allegheny County, Pennsylvania and Wisconsin, because those bonds were issued on a parity with previously issued bonds.

CHAPTER V. BONDS FOR RENTAL HOUSING

The Mortgage Subsidy Bond Tax Act subjects tax-exempt bonds for rental housing to two new requirements: all bonds issued after January 1, 1982 must be issued in registered form, and at least 20 percent (15 percent in targeted areas) of the units in projects financed with tax-exempt bonds must be available for rental to low- or moderate-income tenants. For bonds issued before January 1, 1984, the income-targeting requirement need be met only for 20 years, rather than for as long as the building is standing. The registration requirement is described in Chapter IV; this chapter describes the other requirements.

The rule requiring that 20 percent of the units be rented to low- or moderate-income tenants affects only a portion of tax-exempt bonds for rental housing, since most of these bonds have always financed buildings in which all units are rented to tenants of low or moderate income, usually under the Section 8 new construction program described briefly in Chapter I.¹ Appendix C, which provides information on a sample of bonds issued for rental housing in November and December 1981, contains information on five issues of state housing agencies for buildings in which all tenants will be of low or moderate income, and on five city or county issues for market-rate apartment buildings. For bonds financing market-rate apartments, the 20 percent rule was intended to direct a portion of the mortgage interest-rate subsidy to low-income tenants in the form of reduced rents.

MARKET CONDITIONS

Many developers have delayed plans for new apartment buildings because interest rates on tax-exempt bonds are so high that the projects would be unprofitable. The requirement that 20 percent of the units be rented to low-income tenants aggravates that situation somewhat, because it reduces the income that owners can expect to

1. This may not be true in future if the Section 8 new construction program is eliminated.

receive from the buildings.² In addition, many developers would like to obtain tax-exempt construction and permanent financing (often for townhouse developments) and then convert the units to condominiums or other owner-occupied housing at the end of five years or so. The act poses a problem for these developers, because the provisions dealing with owner-occupied housing apply to bonds whose proceeds "are to be used directly or indirectly for mortgages on owner-occupied residences."

ENFORCEMENT

In order to issue bonds with the lowest possible interest rates, nearly all of the bonds for market-rate rental housing projects have maturities of no longer than ten years. This poses a problem for the 20-percent rule, which is in force for 20 years after the bonds are issued. Most issuers have addressed this problem by filing deed restrictions as covenants running with the land. These restrictions bind all owners (current and future) of the apartment building to make available 20 percent of the units for tenants of low- or moderate-income for the full 20-year period, or for a shorter period if the federal law is subsequently modified. Low-income tenants might sue for enforcement of the restriction if it were not followed, or the issuing authority might sue if bonds were still outstanding, since without compliance with the restriction the IRS might declare the interest taxable.

DISPERSAL AND EQUAL ACCESS TO COMMON AREAS

Since the regulations dealing with the rental housing provisions of the act have not yet been issued, each of the bond issues has been structured in a slightly different way to comply with different expectations of what the regulations will require. In some cases, the official statements stipulate that all tenants, including low-income tenants, will have equal access to all common areas (such as swimming pools) and that the low-income units will be interspersed among the other units. The projects in which only

-
2. This targeting requirement poses another problem, however, since insurers, including the Federal Housing Administration, currently will not insure mortgages on buildings bound by the requirement. They fear that the resale value of the buildings (should their owners declare the projects bankrupt) would not be high enough to cover the costs of the insurer.

20 percent of the units were reserved for low-income tenants were never described in the official statements, so it was impossible to tell whether the owners plan to put the low-income tenants in less desirable units (efficiencies rather than larger apartments, for instance).

CHANGES PROPOSED IN THE MISCELLANEOUS TAX BILL PASSED BY THE SENATE

The Senate version of the Miscellaneous Tax Bill would shorten the length of time during which the targeting requirement would be in effect, from the current 20 years to the latest of: "(1) ten years after over one-half the project is first occupied, (2) a date ending when 50 percent of the maturity of the bond has gone by, or (3) the date on which any Section 8 (or comparable) assistance terminates."³

This version would also clarify the definition of low- or moderate-income tenants. Low- or moderate-income is now defined by reference to Section 167(k), an Internal Revenue Code provision allowing the costs of rehabilitating low-income rental units to be amortized over five years. That provision defines low- or moderate-income as 80 percent of area median income, as determined by the Department of Housing and Urban Development. In 1981, the Congress tightened eligibility for the Section 8 program, basically limiting it to tenants with incomes below 50 percent of area median income. The legislative history of that 1981 change makes clear that it was not to affect the definition of low income as it relates to housing bonds,⁴ but the Senate also passed a clarification in the Miscellaneous Tax Bill. The provision in the Senate version of the bill defines low- or moderate-income as 80 percent of area median income, regardless of the percentage used in the Section 8 program.

3. Joint Committee on Taxation pamphlet summarizing H.R. 4717, Miscellaneous Tax Bill, as amended and passed by the Senate, released February 12, 1982.
4. "The Conferees do not intend that these amendments regarding tenant eligibility for section 8 assistance will affect the conditions established for project eligibility under section 167(k) or section 103(b)(4)(A) of the Internal Revenue Code of 1954." Conference Report on Omnibus Budget Reconciliation Act of 1981, Report No. 97-208, Book 2, 97 Cong., 1 sess. (July 29, 1981), p. 689.

APPENDIXES

APPENDIX INDEX OF FOOTNOTES TO INDIVIDUAL BOND ISSUES, BY
GEOGRAPHIC AREA

	<u>Page</u>
TABLE A-1. BONDS ISSUED IN 1981 FOR MORTGAGES ON OWNER- OCCUPIED HOUSING UNDER THE PERMANENT RULES OF THE ACT	55
Alabama HFA	60
Alaska HFC, 1981 First Series	61
Alaska HFC, 1981 Second Series	63
Broward County HFA, FL	87
Central Texas HFC	94
Connecticut HFA	64
Dade County HFA, FL	88
Duval County RA, FL	90
East Texas HFC	94
Fairfield, CA	95
Fresno County, CA	83
Hawaii HA	66
Idaho HA	67
Kentucky HC	69
Larimer County, CO	86
Louisiana HFA	69
Michigan SHDA	71
Montgomery County HOC, MD	91
New York SMA	72
Newark, CA	96
North Carolina HFA.	74
Oklahoma HFA.	75
Rhode Island HMFC, 1981 Series 1	77
Rhode Island HMFC, 1981 Series 2	78
Riverside County, CA	84
Southeast Texas HFC	94
Tennessee HDA	79
Virginia HDA	80
Washington County, MD	92
Wisconsin	81
Wyoming CDA	75

APPENDIX INDEX (Continued)

	<u>Page</u>
TABLE B-1. TITLE 1 HOME IMPROVEMENT BONDS ISSUED UNDER THE PERMANENT RULES IN 1981	99
Allegheny County RA, PA	104
Arkansas HDA	101
Chicago, IL	101
Minnesota HFA	101
New Jersey MFA	102
Philadelphia RA, PA	105
Wisconsin HFA	103
 TABLE C-1. SAMPLE OF BONDS ISSUED FOR RENTAL HOUSING IN LATE 1981	 107
California HFA	109
Clay County HFA, Florida	115
Denton County HFC, Texas	116
Little Rock RHFB, Arkansas	114
Massachusetts HFA	109
Michigan State HDA	110
New Jersey HFA	111
Oregon	112
St. John's County HFA, Florida	116
Tucson IDA, Arizona	113

TABLE A-1. BONDS ISSUED IN 1981 FOR MORTGAGES ON OWNER-OCCUPIED HOUSING UNDER THE PERMANENT RULES OF THE ACT¹

Issuer	Date of Issue	Bond	Bond Net	Mortgage	Type of Obliga- tion ³	Type of Mortgage ⁴	Bond Rating	
		Issue Amount (In millions of dollars)	Interest Cost (In percents)	Interest Rate ² (In percents)			Moody's	S&P's
State Issues								
Alabama HFA	12/1/81	100.00	13.47	13.85	LO	LP:30 ^a	A1	AA-
Alaska HFC	11/1/81	100.00	12.50	10.00 ^a	GO	LP:30	AA	AA-
Alaska HFC	12/1/81	100.00	11.54	10.00 ^a	GO	LP:30	AA	AA-
Connecticut HFA	12/15/81	200.00	12.89	13.50	GO	LP:30	A1	AA
Hawaii HA	12/1/81	20.00	12.81	12.87	SO	GE:16 ^a	A	A
Idaho HA	12/1/81	30.07	12.79	13.00 ^a	SO	APP:18 ^b	-	A
Kentucky HC	12/15/81	36.00	13.22	-	SO	LP:25	Aa	AA
Louisiana HFA	12/1/81	150.00	11.81	13.50	LO	LP:30	Aa	AA-
Michigan SHDA	12/1/81	25.00	13.79	-	GO	GE:17 ^a	A	AA-
New York SMA	11/1/81	104.75	10.97	14.00	LO	LP:30	Aa	AA-
North Caro- lina HFA	11/1/81	30.00	12.80	13.30	SO	LP:30	A1	A1
Oklahoma HFA	12/1/81	100.00	13.72	13.90	LO	LP:20	A	A
Rhode Island HMFC	12/1/81	40.00	12.95	13.75	SO	APP:16.5 ^a	A1	A+
Rhode Island HMFC	12/15/81	25.00	13.92	14.60	SO	APP:16.5 ^a	A1	A+
Tennessee HDA	12/1/81	50.00	13.96	12.00	GO	LP:30	A1	A+
Virginia HDA	12/1/81	100.00	13.28	13.70	GO	LP:30 ^a	A1	AA
Wisconsin	8/1/81	10.05	11.50	12.31	LO	LP:30	Aa	AA-
Wyoming CDA	12/1/81	75.00	13.46	13.00	GO	LP:30	Aa	AA-
County Issues								
Fresno, CA	12/15/81	40.00	13.07	12.98 ^a	LO	LP:30	A	A
Riverside, CA	12/1/81	21.57	-	11.37	LO	LP:30 ^a	-	AAA
Larimer, CO	4/30/81	8.00	11.96	12.50	LO	LP:30	-	-
Broward HFA, FL*	12/1/81	25.00	13.59	-	LO	GE:16 ^a	A1	A
Dade HFA, FL	12/1/81	40.90 ^a	13.81 ^b	13.99	SO	GE:14 ^c	A	-
Duval HFA, FL	12/1/81	18.61 ^a	13.17 ^b	13.40	SO	LP:30	Aa	AAA
Montgomery HOC, MD	11/1/81	75.00	13.15	13.73	LO	LP:30	Aa	A+
Washington, MD	12/1/81	9.00	13.87	13.87	LO	LP:25 ^a	A	A-
Central Texas HFC	12/31/81	6.11	13.53	13.75	LO	LP:20	-	AAA
East Texas HFC	12/31/81	10.71	13.53	13.75	LO	LP:20	-	AAA
Southeast TX HFC	12/31/81	12.75	13.53	13.75	LO	LP:20	-	AAA
City Issues								
Fairfield RA, CA	12/1/81	22.62	11.98	11.87	SO	LP:25 ^a	-	AAA
Newark RA, CA	12/1/81	21.40 ^a	12.99 ^b	-	SO	LP:30 ^c	-	A

(Continued)

TABLE A-1. (Continued)

Issuer	Percentage Application of Total Funds ⁵						Total Funds from Other Sources ⁵ (In millions of dollars)
	Mortgages	Reserves	Discount	Costs of Issuance	Capitalized Interest	Other	
State Issues							
Alabama HFA	91.6	1.9	0.0	3.6	1.3	1.7 ^b	5.50 ^c
Alaska HFC	98.2	1.6	-- ^b	0.2	0.0	0.0	29.50 ^c
Alaska HFC	91.2	8.3	-- ^b	0.5	0.0	0.0	23.30 ^c
Connecticut HFA	85.3	12.1	2.5 ^a	0.1	0.0	0.0	0.0 ^b
Hawaii HA	84.9	11.0	2.6	0.8	0.6	0.0	1.07 ^b
Idaho HA	75.8	17.2	5.2	1.3	0.6	0.0	2.52 ^c
Kentucky HC	88.9	8.3	2.0	0.8	0.0	0.0	0.0 ^a
Louisiana HFA	87.6	8.8	2.4	0.6 ^a	0.7	0.0	3.1
Michigan SHDA	83.4	10.7	2.5	2.5 ^b	0.9	0.0	1.50 ^c
New York SMA	85.0	11.9	2.2	0.9 ^a	0.0	0.0	b
North Carolina HFA	83.8	11.2	2.6	0.5	0.9	0.0	2.0 ^a
Oklahoma HFA	94.3	2.4	2.1	0.3	0.8	0.0	3.37 ^a
Rhode Island HMFC	95.0 ^b	1.0 ^b	2.7 ^b	--	1.3 ^b	0.0	0.94 ^c
Rhode Island HMFC	94.8	0.9	2.7	-- ^b	1.6	0.0	0.65 ^b
Tennessee HDA	83.6	13.2	2.2	0.3	0.7	0.0	8.7 ^a
Virginia HDA	84.6	10.1	2.6	0.1	1.7	0.8 ^b	0.0
Wisconsin	93.8	2.9	3.3 ^a	a	0.0	0.0	0.35 ^b
Wyoming CDA	81.4	13.9	2.4	0.4	1.9	0.0	5.96 ^a
County Issues							
Fresno, CA	84.3	9.5	3.1	0.5	0.0	2.7 ^b	3.26 ^c
Riverside, CA	86.1	8.6	2.6	2.7 ^b	0.0	0.0	1.1 ^c
Larimer, CO	84.1	13.1	--	2.3	0.0	0.5 ^a	0.14 ^b
Broward HFA, FL*	85.5	10.3	3.0 ^b	b	1.1	0.0	1.09 ^c
Dade HFA, FL	89.7	5.7	3.5 ^d	d	1.1	0.0	0.94 ^e
Duval HFA, FL	88.4	4.6	2.4	3.3 ^c	1.3	0.0	0.99 ^d
Montgomery HOC, MD	86.6	10.7	1.7	1.0 ^a	0.0	0.0	1.49 ^b
Washington, MD	87.8	7.6	3.7	0.9	0.0	0.0	0.58 ^b
Central Texas HFC	92.9	2.4	2.1	2.6 ^a	0.0	0.0	0.34 ^b
East Texas HFC	93.0	2.4	2.1	2.6 ^a	0.0	0.0	0.59 ^b
Southeast TX HFC	92.9	2.4	2.1	2.6 ^a	0.0	0.0	0.70 ^b
City Issues							
Fairfield RA, CA	81.0	13.4	2.8	0.7	0.0	2.1 ^b	1.62 ^c
Newark RA, CA	93.4	3.0	2.7	0.9	0.0	0.0	0.01 ^d

(Continued)

TABLE A-1. (Continued)

Issuer	Percentage of Lendable Funds Set Aside for Targeted Areas	Is Issuer Applying for Expanded Targeted Areas?	Purchase Price Limits (In thousands of dollars)			
			Non-Targeted Area		Targeted Area	
			New	Existing	New	Existing
State Issues						
Alabama HFA	3.7 ^d	no	58	50	71	61
Alaska HFC	0.0 ^d	no	91 ^e	75 ^e	--	--
Alaska HFC	0.0 ^d	no	101 ^e	82 ^e	--	--
Connecticut HFA	20.0	yes	66 to 128 ^c	53 to 128 ^c	81 to 156 ^d	66 to 157 ^d
Hawaii HA	20.0 ^c	no ^c	105 to 112 ^d	99 to 101 ^d	112 ^d	112 ^d
Idaho HA	0.0 ^d	no	57 ^e	50 ^e	d	d
Kentucky HC	b	no	46 to 52	40 to 45	56 to 64	49 to 55
Louisiana HFA	1.1	--	--	--	--	--
Michigan SHDA	20.0	yes	56 to 89 ^d	e	69 to 109 ^d	e
New York SMA	20.0	yes	c	c	c	c
North Carolina HFA	20.0 ^b	no	45 to 89	43 to 59	55 to 108 ^c	53 to 72 ^c
Oklahoma HFA	20.0 ^b	yes ^b	61 to 86 ^c	41 to 60 ^c	74 to 105 ^c	51 to 73 ^c
Rhode Island HMFC	0.3	yes	d	d	d	d
Rhode Island HMFC	0.4	yes	c	c	c	c
Tennessee HDA	17.3	yes ^b	41 to 52	33 to 49	--	--
Virginia HDA	1.5	yes	36 to 72 ^c	36 to 72 ^c	36 to 72 ^c	36 to 72 ^c
Wisconsin	1.3	no	63	50	77	61
Wyoming CDA	0.0 ^b	yes ^c	71	56	b	b
County Issues						
Fresno, CA	20.0	no	82 ^d	61 ^d	74 ^d	33 ^d
Riverside, CA	0.0 ^d	--	80	e	--	e
Larimer, CO	0.0 ^c	no	d	d	c	c
Broward HFA, FL*	0.0 ^d	no	63	63	d	d
Dade HFA, FL	9.5 ^f	no	72	65 ^g	88	80 ^g
Duval HFA, FL	5.8	no	59 to 72 ^e	45 to 72 ^e	62 to 87 ^e	55 to 87 ^e
Montgomery HOC, MD	0.0 ^c	no	65 ^d	65 ^d	c	c
Washington, MD	5.5 ^c	yes ^c	63	51 ^d	76	62 ^d
Central Texas HFC	0.0 ^c	no	58 to 60	45	c	c
East Texas HFC	0.0 ^c	no	58	45	c	c
Southeast TX HFC	0.0 ^c	no	58 to 71	45 to 78	36 to 72 ^c	36 to 72 ^c
City Issues						
Fairfield RA, CA	0.0 ^d	no	83 ^e	83 ^e	d	d
Newark RA, CA	0.0 ^e	no	60 to 114	f	e	e

(Continued)

TABLE A-1. (Continued)

Issuer	Range of Income Limits (In thousands of dollars)	Recipient of Excess Arbitrage Earnings ⁶	Issuer's Other Bonds Outstanding (In millions of dollars)			Issuer's Fund Balance (In millions of dollars)
			Single Family	Multi- Family	Other	
State Issues						
Alabama HFA	34 ^e	M	149.66	-	-	-
Alaska HFC	f	-g	1,082.16 ^h	-	1	95.3 ^j
Alaska HFC	f	-g	1,082.16 ^h	-	1	95.3 ^j
Connecticut HFA	14 to 16 ^e	M	f	f	1,214.23 ^f	64.53 ^g
Hawaii HA	25 to 36 ^e	M	150.00	f	-	4.78 ^g
Idaho HA	-	T	181.04	63.34	7.60 ^f	13.16 ^g
Kentucky HC	19 ^c	M	d	d	586.08 ^d	35.02 ^e
Louisiana HFA	40 ^c	- ^d	0.0	0.0	e	-
Michigan SHDA	32 ^f	T ^d	234.2 ^g	675.1 ^g	440.7 ^g	54.7 ^h
New York SMA	-	M	226.04 ^d	-	-	101.57 ^e
North Caro- lina HFA	14 to 22 ^d	M	108.88	23.28	0.0	9.19 ^e
Oklahoma HFA	38 to 42 ^d	T	e	e	191.6 ^e	-
Rhode Island HMFC	d	T	762.70	251.01	0.0	42.30 ^e
Rhode Island HMFC	c	T	802.70	251.01	0.0	42.30 ^d
Tennessee HDA	14 to 17 ^c	M	274.38	207.90	0.0	29.98 ^d
Virginia HDA	18 to 33 ^d	M	665.96	395.68	4.98 ^e	45.46 ^f
Wisconsin	27 ^c	T	1,141.95 ^d	-	-	2.94 ^e
Wyoming CDA	45 ^d	T	389.61	-	-	23.45 ^e
County Issues						
Fresno, CA	33 ^e	M	-	-	-	-
Riverside, CA	34	T	-	-	-	-
Larimer, CO	25 to 30 ^e	M	f	f	f	f
Broward HFA, FL*	31	M	42.55 ^e	-	-	-
Dade HFA, FL	35	T	150.00 ^h	-	-	-
Duval HFA, FL	33 ^f	T	150.00 ^g	0.0	0.0	-
Montgomery HOC, MD	24 to 33 ^e	M	108.6 ^f	g	-	3.06 ^h
Washington, MD	37 ^e	T ^f	-	-	-	-
Central Texas HFC	45	T	-	-	-	-
East Texas HFC	45	T	-	-	-	-
Southeast TX HFC	45	T	-	-	-	-
City Issues						
Fairfield RA, CA	30	T	21.0 ^f	0.0	0.0	-
Newark RA, CA	37 ^g	M	0.0	0.0	0.0	h

TABLE FOOTNOTES

* Preliminary official statement analyzed.

-- Information not available from official statement.

1. Not included in this table are the issues of four counties in Colorado: Aurora, \$14.5 million; El Paso, \$18.35 million; Weld, \$7.5 million, and Summit, \$3.0 million; and three localities in North Carolina: Greensboro, \$10.0 million, Charlotte, \$15.6 million, and Shelby, \$2.1 million.
2. Nominal interest rate, not including points paid at settlement.
3. Obligation is of the issuer.
LO = limited obligation
SO = special obligation
GO = general obligation
4. LP:30 = level payment mortgage amortized over 30 years
GE:16 = growing equity mortgage paid off at end of 16 years
APP = accelerated principal payment mortgage
5. Total funds include all cash contributions to the issue, including participation points that are included as "sources of funds" in the official statement.
6. T = U.S. Treasury
M = Mortgagors

NOTE: The lettered footnotes apply to the footnotes for each bond issue listed in the table stubs. Each issue has its own list of footnotes starting with "a" and increasing alphabetically across the issue line. The individual issue footnotes follow, arranged alphabetically within levels of government (state, county, and city).

FOOTNOTES TO INDIVIDUAL ISSUES FOR TABLE A-1

ALABAMA HOUSING FINANCE AUTHORITY

\$100 million

Single Family Mortgage Revenue Bonds, 1981 Series A

- a. A third party (usually the developer) can prepay some of the interest, "buying down" the mortgage interest rate.
- b. Commitment fee account. \$1.75 million is 1.7 percent of total funds.
- c. \$1.75 million commitment fees which will be refunded when mortgage loans are purchased by the trustee. \$3.75 million, a state appropriation, covers costs of issuance, underwriting fees and expenses.
- d. \$3.6 million is being set aside for mortgage loans in targeted areas defined according to the Treasury regulations. In addition, \$5.4 million is being reserved for loans in 36 primarily rural counties.
- e. 1980 adjusted gross income totaled for all household members.

In order to reduce the average life of the bonds and get a lower interest rate, the bonds were structured on the assumption that mortgage prepayments will occur at a rate of 100 percent of FHA experience for the region. To the extent that prepayments occur more slowly, the issuer may borrow money at a rate of 1 percent above the prime rate from Bank of America to make scheduled debt payments on the bonds. The Bank of America will receive, as compensation for this letter of credit, \$540,000 on the date of bond issuance. Pursuant to an investment agreement, Bank of America will hold all reserve funds and will pay interest on the various funds at rates ranging from 6.5 percent to 13.18 percent. Net interest cost on the bonds is 13.47 percent. A mortgage service indemnity bond for each lender will be issued and maintained by the trustee from Insurance Company of North America. The state

(Continued)

ALABAMA (Continued)

appropriated \$3.75 million for costs of issuance and fees and expenses. The state will not be reimbursed.

Fees: Lenders pay refundable commitment fees of 2 percent of commitment. Mortgagors pay lenders 1.5 percent of principal as origination fee.

Underwriters: Goldman, Sachs & Co.; Salomon Brothers Inc.; First Birmingham Securities Corporation.

37 lenders.

ALASKA HOUSING FINANCE CORPORATION

\$100 million

Home Mortgage Bonds, 1981, First Series

- a. Mortgage interest rate will be 10 percent for nonveterans, 9 percent for veterans.
- b. State legislative appropriation will pay the underwriters' discount, but the amount of discount is not specified.
- c. State legislative appropriation. Of the \$29.5 million, \$27.252 million will be used for mortgages, \$2.0 million for reserves, and \$.25 million for costs of issuance.
- d. The state contains one qualified census tract, but it is "federal land on which no private mortgage loan financing has occurred during the relevant base period." (Official Statement, p. 25).
- e. These are safe harbor numbers. "Based on what the Corporation believes to be more reliable data available to it, the Corporation may determine to use somewhat higher average area purchase price information." (Official Statement, p. 25).
- f. Certain mortgagors will be subject to income limits ranging from \$25,650 to \$32,650, depending on family size.

(Continued)

ALASKA (Continued)

- g. Because no reserves are funded from bond proceeds, the Corporation does not expect any excess arbitrage earnings.
- h. Outstanding on September 30, 1981.
- i. In addition, the Corporation had outstanding \$450 million in taxable bonds and \$18.729 million in tax-exempt construction notes. The State of Alaska has appropriated to the Corporation \$529 million in cash and \$286 million in mortgage loans.
- j. Total fund equity was \$645.3 million as of June 30, 1981, of which \$550 million was contributed capital. The other \$95.3 million was retained earnings.

The \$100 million in bonds will be secured by \$125 million in mortgage loans and \$2 million in reserves. Mortgages financed with bond proceeds will meet the requirements of the Mortgage Subsidy Bond Tax Act. The state will subsidize the mortgage interest rate to 10 percent (9 percent for veterans) for the first \$90,000 of each mortgage loan financed with bond proceeds (the remaining principal of each mortgage loan will bear interest at a rate equal to the rate on the bonds) and to 12-1/8 percent for loans financed by state appropriation.

The maximum bond maturity is 20 years, and the bonds are structured on the assumption that prepayments will occur at the rate of 100 percent FHA experience in the area. To the extent that prepayments occur more slowly, the Bank of America has agreed in a letter of credit to lend money to the Corporation at the prevailing prime rate. In exchange for this letter of credit, the Bank of America will be paid annually 1/2 of 1 percent of the maximum aggregate liability of the Bank. The fee in the first year will be about \$128,000.

Fees: No mention of fees in the official statement.

Underwriters: Salomon Brothers Inc.; Goldman, Sachs & Co.; E.F. Hutton & Co., Inc.; Kidder, Peabody & Co.; Merrill Lynch White Weld Capital Markets Group; Bank of America NT & SA.

List of lenders not provided in the official statement.

ALASKA HOUSING FINANCE CORPORATION

\$100 million

Home Mortgage Bonds, 1981, Second Series

- a. Mortgage interest rate will be 10 percent for nonveterans, 9 percent for veterans.
- b. State legislative appropriation will pay the underwriters' discount, but the amount of discount is not specified.
- c. Of the state legislative appropriation of \$23.3 million, \$22.675 million will be used for mortgages, and \$.625 million for costs of issuance.
- d. The state contains one qualified census tract, but it is "federal land on which no private mortgage loan financing has occurred during the relevant base period." (Official Statement, p. 25).
- e. Since the Corporation purchased 95 percent of all mortgages originated in Alaska between November 1, 1980 and October 31, 1981, it is using its own statistics to support purchase price limits above the safe harbor limits of \$90,630 for a new house and \$74,610 for existing single-family houses.
- f. Certain mortgagors will be subject to income limits ranging from \$25,650 to \$32,650, depending on family size.
- g. No mention is made in the official statement of excess arbitrage earnings. Reserves for this issue are financed with bond proceeds and are invested pursuant to an investment agreement with Crocker National Bank. The agreed-upon interest rates for the various reserve accounts are 11.75 percent, 12.50 percent, and 8 percent, so the corporation may not expect to earn any excess arbitrage.
- h. \$1,082.162 million outstanding on September 30, 1981 and \$100 million issued on November 24, 1981.
- . In addition, the Corporation had outstanding \$450 million in taxable bonds and \$18.729 million in tax-exempt construction notes. The state of Alaska has appropriated to the Corporation \$529 million in cash and \$286 million in mortgage loans.

(Continued)

ALASKA (Continued)

- j. Total fund equity was \$645.3 million as of June 30, 1981, of which \$550 million was contributed capital. The other \$95.3 million was retained earnings.

The \$100 million in bonds will be secured by \$87.825 million of mortgage loans financed with bond proceeds and meeting the requirements of the Mortgage Subsidy Bond Tax Act and \$22.675 million of mortgages financed with state appropriations and \$10.0 million in reserves financed with bond proceeds.

The bonds are structured on the assumption that prepayments will occur at a rate of 20 percent of FHA experience for the area. Because prepayments are anticipated and because the pledged mortgages far exceed the bond amount, the Corporation expects to discharge all bonds prior to the maturity of all mortgages. The longest bonds mature in 30 years.

\$75 million of the \$100 million in bonds are option bonds, which can be redeemed at par in 5 years and once a year subsequently at Crocker National Bank. In exchange for the letter of credit agreement, Crocker Bank will receive an initial fee of \$375,000 and an annual fee equal to one percent of the principal amount of outstanding option bonds.

Fees: No mention of fees in the official statement.

Underwriters: Salomon Brothers, Inc.

List of lenders not provided in the official statement.

CONNECTICUT HOUSING FINANCE AUTHORITY

\$200 million

Housing Mortgage Finance Program Bonds, 1981 Series B

- a. Includes "Allowance for Bond Discount" and "Original Issue Discount."

(Continued)

CONNECTICUT (Continued)

- b. Although there is no cash contribution from the HFA to this issue, "proceeds of other series of [HFA] Bonds will be available and may be prudently applied, if needed, to remedy any shortfall in expected prepayments." (Official Statement, p. 30)
- c. The ranges refer to single family residences. For 2-, 3-, or 4-family residences, multiply the above amounts by 1.126, 1.363, or 1.585, respectively.
- d. These ranges equal 1.222 times the ranges for non-targeted areas. Connecticut's currently lower sales price limits are being amended to these levels. Presently, sales price limits on existing housing are \$50,000 for a 1-unit dwelling, \$55,000 for 2-unit, \$60,000 for 3-unit, \$65,000 for 4-unit (\$10,000 higher for Fairfield County). Limits on new or rehabilitated housing are \$10,000 higher.
- e. For single individuals. For families of seven or more the income limitations range from \$24,200 to \$26,400. A mortgagor of above-limit income can finance a home in a targeted area if he has proof that two financial institutions have refused to make him a loan on reasonable terms with the institution's regular interest rate, length of loan term, and downpayment requirements.
- f. Total of all bonds outstanding. The Authority does not have a breakdown by type of housing financed.
- g. As of September 30, 1981; unaudited.

No extra funds were contributed by the issuer. However, the bonds are general obligations of the Authority, issued under the same resolution as, and equally and ratably secured with \$1.214 billion in outstanding bonds. In addition, the state has pledged to maintain the Capital Reserve Fund at its required minimum with loans from the state's general fund, if necessary.

Fees: There is no discussion of fees in the official statement.

(Continued)

CONNECTICUT (Continued)

Underwriters: Salomon Brothers Inc.; The Connecticut Bank and Trust Company; The First Boston Corp.; Goldman, Sachs & Co.; Merrill Lynch White Weld Capital Markets Group; Morgan Guaranty Trust Company of New York.

A list of participating lenders was not provided in the official statement.

HAWAII HOUSING AUTHORITY

\$20 million

Home Mortgage Purchase Revenue Bonds, 1981 Issue A

- a. Mortgage payments will increase by 3 percent each year during the first ten years. The interest rate is fixed at the stated rate of 12.875 percent so the entire amount of the increase in mortgage payment will constitute a reduction of principal. The mortgage payments remain constant from the tenth year to final maturity. As a result of the accelerated amortization of principal, each mortgage loan will be fully paid in approximately 16 years.
- b. \$237,000 in commitment fees deposited in a reserve fund; \$837,000 of Authority general funds contributed to reserves.
- c. The Authority is applying to HUD for a redetermination of target areas, under which less than 20 percent of funds would be reserved for these target areas.
- d. The limits vary according to county.
- e. Limits vary according to family size and refer to total income before taxes. There is also an asset limit equal to the income limit.
- f. The Authority sponsors multifamily programs, but they were not described in the official statement.

(Continued)

HAWAII (Continued)

- g. As of June 30, 1981, audited. Refers only to the Single Family Mortgage Purchase Revenue Bonds Special Fund of the Hawaii Housing Authority.

Contributions from the Authority's general fund total \$837,000, all of which are allocated to the reserve funds. A provision allows the Authority to withdraw funds from the pledge of the resolution once all other requirements are met.

Fees: Nonrefundable 1.5 percent commitment fee paid by lenders to the Authority. Up to 2.5 percent origination fees paid by the seller or buyer to the lender.

Underwriters: Merrill Lynch White Weld Capital Markets Group; Salomon Brothers Inc.; Dean Witter Reynolds Inc.

16 participating lenders.

IDAHO HOUSING AGENCY

\$30.1 million

Mortgage Revenue Bonds, 1981 Series A

- a. Interest rate "buy downs" financed by third parties are allowed.
- b. "Accelerated principal payment mortgages are mortgage loans in which, commencing five years from the date of the mortgage loan, the homeowner's monthly principal payment will increase by 7.5 percent each year until the ninth year after which monthly payments will remain constant. For a mortgage loan with an original principal amount of \$40,000, monthly payments for principal and interest paid by the mortgagor would be approximately \$427 for the first five years, \$459 in the sixth year, \$493 in the seventh year, \$530 in the eighth year and \$570 in the ninth year and each year thereafter. This shortens the life of a mortgage loan to 18 years." (Official Statement, p. 7).

(Continued)

IDAHO (Continued)

- c. Agency contribution from its unrestricted funds.
- d. There are no targeted areas in Idaho.
- e. These purchase price limits are well below the Treasury "safe harbor" limits of \$78,500 for new housing and \$67,100 for existing housing.
- f. Home improvement bonds.
- g. As of June 30, 1981; audited. \$12.565 million of the fund balance is pledged for the repayment of bond issues, \$62,155 is restricted for operations of federally assisted programs, and \$536,334 is unrestricted.

The Agency appropriation of \$2.525 million from its unrestricted funds is for: \$510,000 for the Capital Contribution Account; \$1.815 million for the Capital Reserve Fund; and \$200,000 for the Capitalized Interest Account.

The state has also authorized a continuing appropriation to restore the Capital Reserve Fund to its required level, when necessary.

5 percent of mortgage principal may be for home improvement loans.

Fees: 1 percent origination fee paid by buyer to lender; 2 percent participation fee paid by seller to lender; 3 percent commitment fee paid by lender to Agency, refundable upon delivery of committed mortgage loans.

Underwriters: Matthews & Wright, Inc.

11 participating lenders.

KENTUCKY HOUSING CORPORATION

\$36 million

Housing Revenue Bonds, 1981 Series A

- a. The state pledges to restore the Debt Service Reserve to its minimum requirement, if necessary.
- b. The Corporation will make an unspecified portion of bond proceeds available for mortgages in qualified census tracts.
- c. Adjusted for dependents and status as head of household. The limit for Appalachian counties, counties the state considers economically distressed, is \$22,000. There is also a liquid asset limit imposed by the state.
- d. The total is not broken down as to multifamily and single-family shares, but over 80 percent of mortgages outstanding are for single-family houses. In addition, there is outstanding \$51.5 million of construction notes.
- e. As of June 30, 1981; audited.

There was no cash contribution from the state or issuer. The bonds are issued under the same resolution as \$464 million of other bonds. If necessary, the Debt Service Reserve will be funded by a state appropriation.

Fees: No mention of fees in the preliminary official statement.

The bonds were sold by competitive bidding.

Participating lenders: 64 originators; 25 mortgage servicers/originators.

LOUISIANA HOUSING FINANCE AGENCY

\$150 million

Single Family Mortgage Revenue Bonds, Series 1981

- a. Includes the initial fee for the letter of credit.

(Continued)

LOUISIANA (Continued)

- b. Appropriation from the state.
- c. Adjusted gross income.
- d. "Moneys deposited in the Rebate Account shall be used . . . to make rebates to mortgagors or the United States Department of the Treasury." (Official Statement, p. 11)
- e. The Agency issued \$9.05 million in construction loan notes in May 1981.

This is the Agency's first bond issue. The Agency received a state appropriation for start-up expenses of \$107,000 and an appropriation of \$6 million for its single-family bond program. \$3.1 million of this is being used in this bond issue, with an additional \$200,000 pledged to secure the bonds.

\$100 million of the bonds are option bonds which can be tendered at par for payment on September 1, 1986. Manufacturers Hanover Trust has issued a letter of credit under which it agrees to purchase the bonds on that date. As compensation, Manufacturers Hanover will receive a fee of \$500,000, will be able to retain or sell the option bonds that are tendered, and will receive a portion of the interest paid on the option bonds. The option bonds will bear interest at a primary rate and a supplemental rate. The primary and supplemental interest will be paid to the bondholders, who will forward the supplemental interest to Manufacturers Hanover. Bond counsel, relying on the opinion of special tax counsel, is of the opinion that interest other than supplemental interest on the bonds is tax exempt, but issues no opinion as to the tax exemption of supplemental interest.

Lendable funds will initially be allocated to the parishes on basis of population.

Fees: Lenders will pay 3 percent refundable commitment fees and can charge sellers or mortgagors loan origination fees of 1 percent. The Agency will receive an operating fee at an annual rate of 1/8 of 1 percent of mortgage loan principal outstanding.

(Continued)

LOUISIANA (Continued)

Underwriters: E.F. Hutton & Company Inc.; Howard, Weil, Labouisse, Friedrichs, Inc.; Manufacturers Hanover Trust Company; Scharff & Jones, Inc.; Salomon Brothers Inc.; Lehman Brothers Kuhn Loeb, Inc.; Goldman, Sachs & Co.

86 lenders.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

\$25 million

Single Family Qualified Mortgage Revenue Bonds, 1981 Series A

- a. Payments increase steadily from below normal levels in the first three years to a normal level in the fourth year to above normal levels thereafter. Accelerated amortization of principal shortens the loan term to approximately 17 years.
- b. This includes a refundable deposit in the Commitment Fee Fund.
- c. \$950,000 of the Authority's unrestricted surplus funds is being contributed to various reserves. In addition, \$552,669 is being put on deposit in the Commitment Fee Fund, which will be reimbursed to the Authority as the fees are collected.
- d. These limits follow the Treasury "safe harbor" formula. The official statement mentions that previous loans have involved purchase prices substantially below these limits, and it foresees no difficulty in complying with the federal restrictions.
- e. The program is limited to the financing of new homes.
- f. The Authority is presently raising its maximum income limit from \$24,044 to this level to enlarge its eligible borrower class.
- g. Amounts listed here as single-family or multifamily were clearly identified as such in the official statement. The "other" category includes \$31.930 million identified as home

(Continued)

MICHIGAN (Continued)

improvement bonds and \$408.775 million that includes both single-family and multifamily housing development bonds with no breakdown specified. In addition, the Authority has \$25 million of short-term notes outstanding, which are not included in this table.

h. As of September 30, 1981; unaudited.

The Authority contributed \$950,000 to reserve funds. In addition, the Authority will deposit \$352,669 in the Commitment Fee Fund which will be used to defer interest for the mortgagors. The Authority will be refunded its deposit as commitment fees are collected. The state has also pledged to appropriate funds, if necessary, to maintain the Capital Reserve Fund at its required minimum. The Authority has received several state appropriations over 1978-1981.

Fees: 2.5 percent nonrefundable commitment fee paid by lenders to the Authority.

Underwriters: E.F. Hutton & Company Inc.; Merrill Lynch White Weld Capital Markets Group; Blyth Eastman Paine Webber; John Nuveen & Co.; Lehman Brothers Kuhn Loeb; First of Michigan Corporation; Manley, Bennett, McDonald & Co.

50 lenders.

NEW YORK STATE MORTGAGE AGENCY

\$104.75 million

Residential Mortgage Revenue Bonds, 1981 Series

- a. Includes a letter of credit fee paid to Citibank.
- b. The state contributes indirectly to the program by granting a credit against New York State franchise tax to the servicing banks for the equivalent of a 3/8 percent service fee.

(Continued)

NEW YORK STATE (Continued)

- c. In a special provision applying only to this Agency's mortgage purchase programs, the Tax Act specifies that the loan eligibility requirements of Section 103A apply to the reinvestment loans in lieu of the mortgages purchased by the Agency. In addition, the arbitrage restrictions imposed by Section 103A(i) do not apply to the bonds; the arbitrage restrictions of Section 103(c) of the Internal Revenue Code, however, do apply.

The state has imposed a \$100,000 loan maximum on the loans it will purchase. The newly created loans are required to follow the purchase price limitations according to the Treasury "safe harbor" calculations.

- d. As of November 1, 1981.
- e. As of July 31, 1981; unaudited.

New York State contributes indirectly to the program by granting a credit against New York State franchise tax to the servicing banks.

The holders of the \$100 million of option bonds have the right to tender these bonds at par once each year, beginning on November 1, 1987. The obligation to purchase all outstanding option bonds is guaranteed by a Citibank letter of credit, for which the bank is paid semiannually .45 of 1 percent of the principal amount of option bonds outstanding.

In addition, to the extent that funds are available after all bonds are paid off and all other expenses met, Citibank will receive a termination fee. Except for the Revenue Fund and Cost of Issuance Account, all funds and accounts are to be invested at Citibank pursuant to an investment agreement.

New York State's loans-to-lenders program follows a special transitional rule. With the proceeds of the issue, the state finances the purchase of existing mortgages from financial institutions and requires that the financial institutions reinvest the proceeds in new mortgages within 90 days. 50 percent of the loan money must be used for mortgages with a downpayment of 10 percent or less.

(Continued)

NEW YORK STATE (Continued)

Fees: No mention of fees in the official statement.

Underwriters: Goldman, Sachs & Co.; Salomon Brothers Inc.; Bear, Stearns & Co.; The Chase Manhattan Bank, N.A.; Citibank, N.A.; The First Boston Corporation; Smith Barney, Harris Upham & Co., Inc.

51 participating lenders.

NORTH CAROLINA HOUSING FINANCE AUTHORITY

\$30 million

Home Mortgage Revenue Bonds, 1981 Series A

- a. \$2 million contribution from the state for deposit in the Debt Service Reserve Fund.
- b. 20 percent of loans equals \$5.4 million. The Agency has committed \$4.0 million to mortgage lenders and has reserved the remainder for subsequent allocation to lenders.
- c. These limits calculated from non-targeted area limits. $(NTA \times 1.222 = TA)$
- d. The lower income limit refers to a single mortgagor, the upper limit refers to a family of four. \$500 may be added for each additional family member above four. The range also takes geographical location into account. There are also net asset restrictions for mortgage applications.
- e. As of June 30, 1981.

The state has appropriated \$2 million to fund partially the Debt Service Reserve. The Agency was also granted \$4 million in 1974 by the state. That grant funded reserves on earlier bond issues, and half of the earnings of those reserves supplement support of the Agency's operations.

(Continued)

NORTH CAROLINA (Continued)

Fees: 2 percent refundable commitment fee paid by lender to the Agency.

Underwriters: Salomon Brothers Inc.; Alex. Brown & Sons; First Union National Bank of North Carolina; North Carolina National Bank; Wachovia Bank & Trust Company, N.A.; First Charlotte Corporation; Interstate Securities Corporation.

27 participating lenders.

OKLAHOMA HOUSING FINANCE AGENCY

\$100 million

Single-Family Mortgage Revenue Bonds, 1981 Series A

- a. \$2.925 million of 3 percent participation fees paid by lenders (to be reimbursed by mortgagors' payment of loan origination fees) and a \$450,000 cash contribution from the Agency.
- b. The target areas consist of qualified census tracts and areas of chronic economic distress already approved by the Secretaries of Treasury and HUD.
- c. Limits are safe-harbor limits and vary depending on location within the state.
- d. Income limits are higher in other parts of the state: Tulsa SMSA: \$42,000 for nontarget areas, \$46,200 for target areas; Oklahoma City SMSA: \$40,000 for nontarget areas, \$44,000 for target areas. These income limits refer to 1980 gross income, less certain credits, such as a \$1,000 credit for each household member other than the head of household and a credit of up to \$2,500 for half the earnings of secondary wage earners.
- e. As of June 30, 1981 the Agency had outstanding \$191.6 million in bonds and notes. It had issued \$150 million in bonds for

(Continued)

OKLAHOMA (Continued)

single-family mortgages in June 1980, and \$55 million loan-to-lender construction notes in September 1981.

Because the lenders are required to contribute nonrefundable commitment fees of 3 percent, on the date of bond issuance there will be \$100 million in bonds outstanding and \$100 million in assets (deposits in reserves and in the mortgage acquisition fund). The \$450,000 cash contribution of the Agency subsidizes the issue, and the lenders will receive unusually low servicing fees of 21 basis points annually (standard fees are between 25 and 37.5 basis points). Lenders are allowed to charge mortgagors loan origination fees of 4 percent, leaving 1 percent to cover costs of loan origination after recouping the 3 percent commitment fees. Lenders are exposed to the risk of forfeiting their commitment fees to the extent that they cannot place mortgages, and may have to purchase at a price of 100 percent of unpaid principal mortgage loans found subsequently not to meet the requirements of the Tax Act.

Mortgages will be privately insured so that the uninsured portion of each loan does not exceed 65.5 percent of the property's value. In addition, there will be a mortgage pool insurance policy with advanced claims coverage, and a mortgage servicer indemnity bond.

Fees: Lenders pay nonrefundable commitment fees of 3 percent to the Agency and may charge mortgagors loan origination fees of 4 percent.

Undewriters: Stifel, Nicolaus & Company, Inc.; Salomon Brothers Inc.; Goldman, Sachs & Co.; Dean Witter Reynolds Inc.; R.J. Edwards, Inc.; Leo Oppenheim & Co., Inc.; Woolsey & Company, Inc.

52 participating lenders.

(Continued)

RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION \$40 million

Residential Mortgage Revenue Bonds, 1981 Series 1

- a. Gradual increase of principal payments beginning in the third year with a fixed interest rate (13.75 percent) allows full amortization of the mortgage loans in approximately 16.5 years.
- b. These percentages are calculated from total funds, including the Corporation's contributions, but excluding the costs of issuance, another Corporation contribution of unspecified amount.
- c. Includes \$537,312 deposited into the Capitalized Interest Account and the required Mortgage Reserve deposit (calculated from Mortgage Reserve Requirement -- 1 percent of original outstanding principal amount of bonds), both contributions from the Corporation. Does not include costs of issuance, also a Corporation contribution, because the amount is unspecified.
- d. Unspecified, but the Rhode Island HMFC says that it will comply with the Section 103A rules.
- e. As of June 30, 1981; audited. Of the \$42.301 million fund balance, \$41.165 million is restricted.

The Corporation has agreed to contribute the costs of issuance, a deposit of \$537,312 to the Capitalized Interest Account, and a deposit of \$400,000 to the Mortgage Reserve Fund. No reserves are funded with bond proceeds. Each lender is required to maintain its own non-interest-bearing escrow account in an amount equal to 1.5 percent of principal outstanding on mortgages originated by at lender. The Corporation may withdraw funds from those accounts to cover mortgage payments on delinquent loans and to make up losses from defaulted mortgage loans.

Fees: 1 percent origination fee paid by buyer/seller to lender.

Underwriters: Kidder, Peabody & Co.; Carolan & Company Inc.

No list of lenders is supplied for this bond issue in the official statement. Ten lenders participated in at least five of the Corporation's eight previous bond issues.

Residential Mortgage Revenue Bonds, 1981 Series 2

- a. Gradual increase of principal payments with a fixed interest rate (14.6 percent) allows full amortization of the mortgage loans in approximately 16.5 years.
- b. \$243,125 deposited in reserve accounts and \$406,875 deposited into the Capitalized Interest Account by the Corporation. The Corporation is also paying the costs of issuance but the amount is unspecified. The percentage distribution of the application of funds therefore does not take costs of issuance into account.
- c. Unspecified, but the Corporation says that it will comply with the Section 103A rules.
- d. As of June 30, 1981; audited.

The Corporation is contributing funds from its unrestricted funds to pay the costs of issuance, establish a reserve fund, and deposit funds into the Capitalized Interest Account. The total contribution is \$650,000 plus the costs of issuance. These bonds are issued on a parity with the 1981 Series 1 Bonds issued two weeks earlier.

No reserves are funded with bond proceeds. Each lender is required to maintain its own non-interest bearing escrow account in an amount equal to 1.5 percent of principal outstanding on mortgages originated by that lender. The Corporation may withdraw funds from those accounts to cover mortgage payments on delinquent loans and to make up losses from defaulted mortgage loans.

Underwriters: Kidder, Peabody & Co.; Carolan and Company, Inc.

No list of lenders was provided.

Single Family Program Bonds, 1981 Series A

- a. Contribution from the Agency's general fund, intended to "buy down" the interest rate on the mortgages to 12 percent.
- b. Areas of economic distress have already been designated by HUD and the Treasury for this issue.
- c. These limits vary according to family size and apply to non-urban areas. The limits for urban areas also vary according to family size and range from \$15,500 to \$25,000
- d. As of September 30, 1981; audited.

The Agency contributed \$8.6 million from its general fund to this issue.

Annually, the Agency must inform the state Governor and the state Commissioner of Finance whether the Debt Service Reserve Fund is below minimum. Although it is not bound to, the state may then appropriate funds to make up the shortfall.

The Agency received \$450,000 in state appropriations in 1973-74 and repaid it in 1978.

The pool insurance policy provides that the pool insurer will review loan documents to ensure that requirements of The Tax Act are met. It provides coverage for losses due to defaults that occur because of the failure of loans to meet the Tax Act requirements.

Fees: 1 percent origination fee paid by buyers to lenders; 1 percent refundable commitment fee paid by lenders to the Agency; 3 percent program participation fee paid by the sellers to the Agency.

Underwriters: Salomon Brothers Inc.; The First Boston Corporation; The Cherokee Securities Company; Equitable Securities Corporation; Morgan, Keegan & Company, Inc.; UMIC, Inc.; J.C. Bradford & Co.; Cumberland Securities Company, Inc.; First Tennessee Bank N.A. Memphis.

121 lenders.

Home Mortgage Bonds, 1981 Series A

- a. Most mortgages will be 30-year, level-payment mortgages, but mortgagors have the option of a graduated payment schedule which provides for lower monthly payments over the first five years.
- b. Bond Service Fund deposit.
- c. The applicable limit depends on location.
- d. Adjusted annual family income.
- e. Energy conservation and rehabilitation bonds. In addition, \$152 million of multifamily construction loan notes was outstanding as of September 30, 1981.
- f. As of September 30, 1981, audited.

These bonds are equally and ratably secured on a parity with \$406.9 million of outstanding bonds. The Authority must report shortfalls in the Capital Reserve Fund, for which the Assembly may choose to appropriate funds, although it is not bound to do so. All amounts so paid by the State are advances to be repaid with no interest charged as soon as program operating surpluses occur.

Fees: A 1 percent commitment fee will be paid by the builder or the lender. This fee will sometimes be charged to the buyer instead. In addition, buyers may be charged an origination fee of 1 percent.

Underwriters: Salomon Brothers Inc.; Craigie Incorporated; Blyth Eastman Paine Webber; Wheat, First Securities, Inc.

95 lenders have participated in the Authority's program in the past. No list is specified for this issue.

Veterans Home Loan Revenue Bonds, 1981 Bonds

- a. Underwriters' discount and costs of issuance total 3.3 percent. The breakdown between the two is unspecified.
- b. Contribution from the state to buy mortgage loans and for deposit in the reserve fund.
- c. Adjusted gross income. There is also a limit on assets.
- d. There are no figures listed for amount of bonds outstanding. The Wisconsin Housing Finance Authority issued \$61.945 million bonds between September 1974 and December 1979. The State of Wisconsin issued \$1,000 million of bonds during the same period, and the state issued \$80 million in revenue bonds in April 1980. All of these issues financed mortgage loans for veterans, making the Department of Veterans Affairs the biggest single family mortgage lender in the State in at least 4 of the past 5 years.
- e. Sum of revenues in excess of expenses for the Department of Veterans Affairs' Direct Home Loan Program, unaudited for the period July 1, 1975 to December 31, 1980. Surplus funds were all deposited into a self-insurance account to insure loans made from previously issued bonds.

The state appropriated \$437,900 to fund the acquisition of mortgage loans and the Reserve Fund. This amount just equals the costs of issuance, including underwriters' discount.

In addition, amounts available from earnings of bonds previously issued by the Wisconsin Housing Finance Authority will be available to purchase put bonds that are tendered. \$9.855 million of the bonds are put bonds, which their owners can tender for redemption at par on August 1, 1986 and once each subsequent year until April 1, 1991.

Lenders must supply letters of credit of 1 percent of their loan commitments.

(Continued)

WISCONSIN (Continued)

Underwriters: Goldman, Sachs and Company; Robert W. Baird and Company; Dain Bosworth Incorporated; Piper, Jaffray and Hopwood Incorporated.

28 committed lenders mentioned in the official statement and more were sought.

WYOMING COMMUNITY DEVELOPMENT AUTHORITY

\$75 million

Single Family Mortgage Revenue Bonds, 1981 Series A

- a. Includes a \$4 million contribution from the Authority to the Special Reserve Fund and participation fees collected from the sellers.
- b. There are no targeted areas in Wyoming.
- c. Even though there are no targeted areas now designated in Wyoming, the Authority is applying for designation of some economic distress areas that would be retroactive to this issue.
- d. Income limit may be waived by the Authority.
- e. As of September 30, 1981; unaudited.

The authority contributed \$4 million from its General Fund to form a special reserve fund.

The mortgage pool insurance policy has an advance payment rider under which the insurer steps in to make mortgage payments on mortgages delinquent 60 days or more. The pool insurer will also review each mortgage loan for compliance with the Tax Act provisions.

Fees: 1 percent origination fee paid by buyers to lenders; 3 percent participation fee paid by seller to lenders; 1.5 percent commitment fee paid by lenders to Authority and the lenders sell

(Continued)

WYOMING (Continued)

their mortgages to the Authority for 98.5 percent of their value, so total lender fees equal 3 percent. Lenders must pay damages of 4 percent of mortgages that they fail to deliver.

Underwriters: The First Boston Corporation; Dain Bosworth Incorporated; Kaiser and Company of Wyoming; Boettcher and Company.

50 participating lenders.

COUNTY OF FRESNO, CALIFORNIA

\$40 million

Housing Finance Revenue Bonds, Issue A
(FHA-Insured Mortgage Loans)

- a. Sellers may "buy down" the interest rate on the mortgage loans, if they wish, subject to certain restrictions.
- b. \$1.16 million paid for AMBAC bond insurance premium.
- c. \$1.46 million in lender/developer commitment fees and a \$1.80 million contribution from the County and City of Fresno.
- d. Based on estimates of average area purchase prices prepared by Laventhol and Horvath. These estimates exceed the Treasury Department "safe-harbor" estimates by \$600 for new houses and \$9,600 for existing houses.
- e. \$32,670 is the income limit for people buying new houses, \$27,225 for existing houses, and at least half of the funds for mortgages on existing houses must go to people with incomes below \$21,780 (80 percent of the state median).

The bonds are insured by AMBAC, and all mortgages must be insured by the FHA. Pursuant to an investment agreement with Crocker National Bank, all reserve accounts will yield interest "at the rate of interest equal to the yield on the Bonds" for the first ten years, and at the rate of 12 percent annually thereafter.

(Continued)

COUNTY OF FRESNO (Continued)

PMI Mortgage Corp. will serve as administrator of the program and will review all loan documents for compliance with the provisions of the Tax Act and monitor servicer performance. It will receive an annual fee of 7/100 of 1 percent of outstanding loan principal.

Fees: Lenders or developers must pay nonrefundable program participation fees of 4 percent. Buyers must pay origination fees of 1 percent.

Underwriters: Goldman, Sachs & Co.; Shearson/American Express Inc.; Crocker National Bank

6 lenders and 12 developments.

COUNTY OF RIVERSIDE, CALIFORNIA

\$21.57 million

Single-Family Housing Revenue Bonds
Issue of 1981

- a. All loans must be insured by the FHA, under Section 203(b) or Section 245. Loans insured under Section 245 may be graduated payment loans, but those under Section 203(b) are level payment.
- b. Costs of issuance include the premiums for municipal bond insurance, fees for bond counsel and special tax counsel, initial trustee fees, printing and rating agency expenses, and some miscellaneous expenses.
- c. \$1.08 million in developer commitment fees of 5.5 percent.
- d. The opinion letter of bond counsel states: "With respect to making mortgage loans in 'targeted areas' the County has made provision for the required amount of bond proceeds to be made available for use in the two census tracts which constitute targeted areas within the jurisdiction of the program." (Official Statement, p. 25) The only other reference in the official

(Continued)

COUNTY OF RIVERSIDE (Continued)

cial statement to targeted areas is in the section describing the bond reserve fund: "up to \$15,000 may be used to purchase mortgage loans with respect to residences in 'targeted areas'." (Official Statement, p. 8)

- e. Bond proceeds are being used to finance new houses in six developments.

The developer commitment fees are being used along with bond proceeds to make mortgage loans. The bonds are insured by AMBAC, and all mortgages are insured by the FHA.

Results of a market demand study for bond-financed mortgages in Riverside County were summarized in the official statement. The income limit imposed by the state of California is \$34,344, which is 120 percent of the median income in the state. 71 percent of the households in Riverside County are estimated to have incomes below \$34,344. This income was compared to the minimum income needed to qualify for a mortgage on a \$65,000 house with a 10 percent downpayment. The minimum income to qualify for a level-payment mortgage at 13.5 percent on that house is \$28,413, and only 11 percent of the county population has income between \$28,413 and \$34,344. If the mortgage were a graduated payment mortgage at 13.5 percent, the minimum income to qualify would be \$23,805, and 22 percent of the county households would potentially qualify for participation in the program.

Fees: 5.5 percent developer commitment fees.

Underwriters: Shearson/American Express, Inc.; Bateman Eichler, Hill Richards.

3 lenders and 6 developers.

Single Family Mortgage Revenue Bonds, 1921 Series A

- a. Purchaser's discount.
- b. Nonrefundable commitment fees paid by lenders and recouped with fees charged buyers and sellers.
- c. There is no mention of targeted area requirements in the offering memorandum. Presumably there are no targeted areas in the county.
- d. The county will stay within the 90 percent of average area purchase price limit, but mentions no specific price limits.
- e. Adjusted family income. Credits for family size, temporary earnings, earnings of minors or handicapped, excess uncompensated medical expenses, 50 percent of secondary adult incomes up to \$2,500. 15 percent of the proceeds are reserved for loans to mortgagors whose income is under \$25,000 and 15 percent to those whose residence has high energy efficiency or solar energy features.
- f. No financial statements are included in the offering memorandum.

These bonds were not rated and were privately placed with the Gibraltar Savings Association.

Fees: 2 percent nonrefundable commitment fee paid by lender. Lenders are reimbursed through 2 percent participation fee, at least half to be paid by the seller and the remainder by the buyer; 1 percent origination fee paid by buyer.

A list of lenders was not provided in the offering memorandum.

Home Mortgage Revenue Bonds, 1981 Series A

- a. Mortgage loans will have maximum terms of about 16 years. Each mortgage will be a "Growing Equity Mortgage Loan" with annual increases in the monthly payments for the first ten years of the mortgage, and level monthly payments thereafter. The annual increases will be 3 percent of the monthly payments of principal and interest on the mortgage loan during the prior year. Because each mortgage loan has a fixed interest rate, all increases in payments constitute payments of principal.
- b. The percentage for costs of issuance is included in the percentage for underwriters' discount.
- c. Authority contribution of \$300,000 is allocated to reserves. Lender commitment fees of \$750,000 and Administrator/Service fees of \$37,500 are also allocated to reserves.
- d. No mention of targeted areas is made in the official statement. Presumably there are none in the county.
- e. This is the principal amount issued. The amount still outstanding is not provided.

The Authority contributed \$300,000 from outside funds for deposit in the Program Reserve Account. This contribution coupled with the lender commitment fees is about equal to the costs of issuance and underwriters' discount.

The Authority has contracted with a mortgage service corporation for servicing of the mortgage loans at an annual fee of one-fourth of 1 percent of outstanding principal. This corporation will also review each mortgage loan for compliance with provisions of the Tax Act and deposit an initial fee with the Authority of .125 percent of total mortgage principal to be originated.

Fees: A total of 4 percent origination fees paid by buyer/seller to lender; up to 2.5 percent subcommitment fee paid by realtor/builder to lender; 1.5 percent commitment fee paid by lender to Authority, nonrefundable.

(Continued)

BROWARD COUNTY (Continued)

Underwriters: Merrill Lynch White Weld Capital Markets Group; Bache Halsey Stuart Shields; Bankers Trust Company; Shearson/American Express, Inc.

10 lenders applied for commitments.

HOUSING FINANCE AUTHORITY OF
DADE COUNTY, FLORIDA

\$40.9 million

Single-Family Mortgage Revenue Bonds,
1981 Series A

- a. \$40 million in senior bonds and \$0.90 million in junior bonds.
- b. This is the net interest cost for the senior and junior bonds combined.
- c. Lending institutions are allowed to set up pledged accounts consisting of deposits made by the seller, buyer, or any other party, and then use amounts in the pledged accounts to pay a portion of the mortgagor's monthly payments during the first few years.
- d. The percentage for costs of issuance is included in the percentage for underwriters' discount.
- e. Program participation fees of 2.5 percent will be used to make mortgages. Maximum potential program participation fees total \$938,308.
- f. \$3.55 million is being set aside for mortgages in targeted areas. Targeted areas consist of five qualified census tracts, which contain about 1.5 percent of the population of Dade County.
- g. Purchase price limits for two-family houses are: \$89,799 in targeted areas and \$73,472 elsewhere; for three-family houses: \$108,699 in targeted areas and \$88,935 elsewhere; and for

(Continued)

DADE COUNTY (Continued)

four-family houses: \$126,403 in targeted areas and \$103,421 elsewhere.

- h. Dade County issued \$150 million in bonds for single-family housing in May 1980, but the amount outstanding is not specified.

Proceeds of the Series A and Series B bonds are being pooled to make mortgage loans, fund reserves, and so forth, but the Series B bonds are unrated and are subordinate to the Series A bonds. Interest and principal on the Series B bonds can be made with sources pledged to the Series A bonds only after all Series A bonds are fully paid. Once the single-family bonds issued in 1980 are fully paid, remaining surplus from those bonds may be used to pay principal and interest on the Series B bonds, and other sources not pledged to payment of the Series A bonds may also be used to pay debt service on the Series B bonds.

Each mortgage loan will be 100 percent insured by a mortgage guaranty insurance policy. The premiums for this insurance are paid by the homeowners and will amount to, depending on the loan-to-value ratio, up to 0.6 percent of loan principal at closing and 0.6 percent of outstanding principal per year.

Fees: Lending institutions are required to deliver a commitment fee in the form of a letter of credit for 2.5 percent of the principal amount of loans that they agree to originate. The issuer will only collect these fees only on loan principal that the lender fails to originate. The lending institutions are to collect from sellers program participation fees of 2.5 percent that are then forwarded to the trustee. Lenders may reserve a portion of their allocations for builders or realtors and charge the builders or realtors a reservation fee of 1.5 percent of the amount of principal reserved. In addition, lenders may charge sellers or buyers loan origination fees of 1.5 percent.

Underwriters: E.F. Hutton & Company, Inc.; William R. Hough & Co.; Shearson/American Express Inc.; Drexel Burnham Lambert Inc.; Lehman Brothers Kuhn Loeb; L.F. Rothschild, Unterberg, Towbin; First Equity Corporation of Florida.

7 lending institutions.

DUVAL COUNTY HOUSING FINANCE AUTHORITY
(Jacksonville, Florida)

\$18.615 million

Single Family Mortgage Revenue Bonds, 1981 Series A, C, and D.

- a. \$17.5 million Series A Bonds and \$1.115 million Series C and D bonds combined.
- b. This is the net interest cost for the Series A, C, and D bonds combined.
- c. The costs of issuance percentage largely represents \$543,256 for a bond insurance premium.
- d. Program participation fees of 5.7 percent, paid by the sellers.
- e. The limits vary according to whether they are one-, two-, three-, or four-family residences.
- f. These limits are 150 percent of area median income, to be adjusted for inflation.
- g. This is the total sum of bonds issued. The official statement does not provide figures for bonds still outstanding.

The Series A bonds are insured by AMBAC as will be the Series B bonds, and all mortgage loans are insured by the FHA. The FHA insurance premium is 0.5 percent annually.

Proceeds of the Series A, Series C, and Series D bonds will be combined for investment in mortgages and reserve funds and to pay costs of issuance and underwriters' discount. The amount of the Series C and D bonds together is roughly equal to the costs of issuance, underwriters' discount and AMBAC insurance fee--the "non-asset" bonds. No later than June 2, 1982, a portion of the Series C bonds will become Series B bonds. The amount of C bonds that convert to B bonds will be chosen so that the Series A and B bonds will, six years later, be backed dollar for dollar by mortgages and investments in reserve funds. No interest can be paid on the Series C or D bonds until none of the Series A or B bonds are outstanding (although interest on the Series C bonds will be paid during the loan origination period). Series C and D bonds may be redeemed while Series A and B bonds are still outstanding if funds

(Continued)

DUVAL COUNTY (Continued)

become available from any of a number of sources, including funds remaining after payment in full of previously issued Series 1980 and Series 1980A bonds.

Fees: 1 percent origination fee paid by buyer/seller to lender; 5.7 percent participation fee paid by seller to the Authority.

Underwriters: E.F. Hutton and Company Inc.; Shearson/American Express Inc.

11 participating lenders.

HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND

\$75 million

Single Family Mortgage Revenue Bonds, 1981 Series A

- a. Includes \$440,250 to be paid to the underwriters.
- b. Collected commitment and processing fees totaling 2.25 percent of mortgage principal paid by the lenders and developers.
- c. The targeted area requirement is said not to apply to this program. There are no target areas in the county.
- d. \$65,000 is the county-imposed limit. The purchase price limit following the Treasury "safe-harbor" formula would be \$80,000.
- e. The limits vary according to size of household.
- f. Outstanding as of November 1, 1981.
- g. The Commission finances the construction of multifamily housing, for which it has issued \$51.36 million construction loan notes and \$5.50 million bond anticipation notes.

(Continued)

MONTGOMERY COUNTY (Continued)

- h. Unaudited, as of September 30, 1981. This fund balance refers only to the Commission's Mortgage Purchase Program. The Commissions other activities, if any, are not described.

These bonds are being issued on a parity with \$108.6 million outstanding single-family mortgage revenue bonds.

Fees: 2 percent fees paid by buyers/sellers to lenders; 1/4 percent participation fee paid by lenders to the Commission; 1 percent nonrefundable commitment fee paid by lenders to the Commission; 1 percent nonrefundable commitment fee paid by developers to the Commission.

Underwriters: Merrill Lynch White Weld Capital Markets Group; Alex Brown and Sons.

23 lenders expressed an interest in participating. The Commission expects to select at least 10 of them.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

\$9 million

Single-Family Mortgage Revenue Bonds, Series 1981

- a. The mortgages will be level payment, but may, in some cases, be made from a combination of graduated payments on the part of the mortgagor and payments made from an account held by the lender.
- b. \$500,000 is a contribution from the county to fund a reserve fund, and \$85,000 is from nonrefundable commitment fees of 1 percent paid by the lenders, for which they will be reimbursed by fees paid by the sellers.
- c. The county contains two qualified census tracts. 5.5 percent of lendable funds are being set aside for mortgages in target areas. This amount is 40 percent of the average annual principal amount of mortgage originations in the qualified census tracts over the past three years. The county is also setting

(Continued)

WASHINGTON COUNTY (Continued)

aside one-third of all lendable funds for mortgages in the City of Hagerstown. In return, the city is reimbursing the county for one-third of the county's cash contribution to the issue. The county has applied to have the entire City of Hagerstown designated as a targeted area.

- d. Purchase price limits on two-to-four family houses are higher. The limit on a four-family house is \$98,507 in targeted areas and \$80,597 elsewhere.
- e. Gross annual family income limits are: \$36,900 for a family of one; \$38,900 for a family of two; with \$1,000 increments allowed for each additional family member.
- f. Excess arbitrage earnings will be rebated to the federal government, but the county may, "at its election, distribute from time-to-time the balance of the Excess Earnings Fund to the Mortgagors, provided that the County obtains an opinion of nationally recognized bond counsel to the effect that such distribution will not affect the exemption of interest on the Bonds from federal income taxation." (Official Statement, p. 34)

The county contribution of \$500,000 is being used to fund a reserve fund, and will be repaid to the County after all bonds are fully paid. When possible, the county will be paid interest at a rate of 10 percent on its contribution.

Up to 25 percent of lendable funds may be used for qualified rehabilitation loans.

Fees: Lenders pay 1 percent nonrefundable commitment fees to the county, for which they are reimbursed in full by the sellers. In addition, lenders only receive a price of 99 percent for mortgages sold to the county. The remaining 1 percent is collected from the sellers. Lenders charge mortgagors a 1 percent fee.

Underwriters: Ferris & Company, Inc. and Butcher & Singer, Inc.

4 lenders to place mortgages on existing houses and 1 lender for new houses.

CENTRAL TEXAS HOUSING FINANCE CORPORATION	\$6.11 million
EAST TEXAS HOUSING FINANCE CORPORATION	\$10.7 million
<u>SOUTHEAST TEXAS HOUSING FINANCE CORPORATION</u>	\$12.7 million

Single Family Mortgage Revenue Bonds, 1981 Series A
(FHA Insured Single Family Mortgage Loans)

- a. Includes initial premiums for bond insurance, special hazard insurance, and mortgagor servicer indemnity bonds, as well as printing expenses, legal fees, and administrative expenses of the issuer.
- b. 5.6 percent participation fees paid by the sellers. 3 percent is for deposit in the Acquisition Fund and 2.6 percent is used to establish the Mortgage Reserve Account.
- c. There are no targeted areas in these districts.

These issues are self-supporting. All loans are 20-year level-payment mortgages insured by the FHA. The mortgage interest rate is 13.75 percent, and in addition the premium for FHA insurance is 0.5 percent, and sellers are charged a total of 5.6 percent participation fees.

In addition to FHA insurance on the mortgage loans, standard and special hazard insurance, the performance of each servicer is insured by a mortgage servicer indemnity bond. Timely payment of debt service on the bonds is insured by American Municipal Bond Assurance Corporation (AMBAC).

Reserves are invested pursuant to long-term investment contracts with the Bank of America and Bankers Trust of New York at rates ranging from 8 percent to 13.55 percent.

Fees: 1 percent origination fee paid by buyers to lenders; 3 percent commitment fee paid by lenders for deposit in the Acquisition Fund; 5.6 percent in total participation fees paid by sellers (1 percent may be paid by real estate broker) to reimburse the lenders for their commitment fees and to fund the reserve accounts.

(Continued)

CENTRAL TEXAS (Continued)
EAST TEXAS (Continued)
SOUTHEAST TEXAS (Continued)

Underwriters: Howard, Weil, Labouisse, Friedrichs, Inc; Bankers Trust Company; Kidder Peabody and Company, Inc.; Dean Witter Reynolds Inc.

Central Texas HFC: 1 lender; East Texas HFC: 4 lenders; Southeast Texas HFC: 7 lenders.

FAIRFIELD REDEVELOPMENT AGENCY, CALIFORNIA \$22.625 million

Residential Mortgage Revenue Bonds, 1981 Series A

- a. Mortgagors may have the opportunity to get a developer's subsidy which would lower payments during the first three years.
- b. This represents \$514,021 contributed by the Agency to pay for a municipal bond insurance policy.
- c. \$829,021 Agency contribution and \$785,640 developer program participation fees.
- d. There are no targeted areas in the city of Fairfield.
- e. The Agency may raise its purchase price limit to \$85,240 on the basis of its own survey, instead of using the Treasury's "safe harbor" guideline.
- f. \$21 million of bond principal issued. The amount still outstanding is not provided.

The Agency contributed a total of \$829,021: \$514,021 for a municipal bond insurance policy and \$315,000 for reserves. Developer program participation fees of \$785,640 will be deposited in a reserve account.

(Continued)

FAIRFIELD (Continued)

The issuer will deposit all amounts in funds and accounts at First Chicago Corporation, pursuant to an investment agreement. Amounts in the reserve account funded by the Agency contribution--the "Unrestricted Yield Account"--will earn an annual interest rate of 12.5 percent, while all other funds will earn an annual rate of 11.7 percent.

All of the mortgages will be insured by FHA, and the bonds will be insured by AMBAC.

Nearly 90 percent of the purchasers who received mortgages from the Agency's first mortgage bond issue were first-time homebuyers.

Fees: .075 percent origination fees paid by the buyers to lenders; 4 percent program participation fees paid by developers to the Agency.

Underwriters: Stone and Youngberg; Merrill Lynch White Weld Capital Markets Group.

3 participating lenders and 3 participating developers.

NEWARK REDEVELOPMENT AGENCY, CALIFORNIA
(Alameda County, California)

\$21.4 million

Residential Mortgage Revenue Bonds

- a. \$20.375 million senior bonds and \$1.025 million junior bonds.
- b. This is the net interest cost for the senior and junior bonds combined.
- c. The developer may pay a portion of the interest payments on behalf of the mortgagors during the first three years.
- d. \$10,000 developer commitment fee.
- e. There are no targeted areas in Newark.

(Continued)

NEWARK, CALIFORNIA (Continued)

- f. The bond proceeds are only funding mortgage loans for new residences, all of which are being developed as part of "the Project." The project's facilities feature four pools, four jacuzzis, tennis courts, and a recreational center.
- g. 7 percent of the mortgage loan money will be reserved for people with incomes below \$36,600. There is no income limit for the remaining mortgagors.
- h. No financial statement is provided.

\$20.375 million in senior bonds and \$1.025 million in subordinate bonds. Most of the senior bond proceeds will finance the acquisition of mortgages. The developer will purchase the subordinate bonds, the proceeds of which will be used to pay the costs of issuance and discount, and to fund the reserves.

Funds available for payment of debt service are used first to make scheduled payments on the senior bonds and then, to the extent possible, to make scheduled payments on the junior bonds. Interest payments not made on time on the junior bonds accrue for payment when sufficient funds are available. The junior bonds were not rated.

Pursuant to an investment agreement with Bank of America, money held in funds and reserve accounts will earn interest at a rate less than the yield on the senior bonds.

Fees: The developer paid a \$10,000 commitment fee which is non-refundable. Buyers are charged an origination fee of 1 percent. 60 percent of the fee will be retained by the lender, and 40 percent deposited in the revenue fund.

Underwriter: Dean Witter Reynolds Inc.

2 lenders.

TABLE B-1. TITLE I HOME-IMPROVEMENT BONDS ISSUED UNDER THE PERMANENT RULES IN 1981

Issuer	Date of Issue	Bond	Net	Interest	Type of	Bond Rating			
		Issue Amount (In millions of dollars)	Interest Cost (In percents)	Rate on Loans (In percents)		Obligation ¹	Moody's	S&P's	
States									
Arkansas HDA	12/1/81	16.000	13.07	14.0	LO	A	A		
Minnesota HFA	12/1/81	52.625	12.76	3-14.5 ^a	GO	A1	A+		
New Jersey MFA	10/1/81	15.075	13.36	14.65	GO	A	A		
Wisconsin HFA	11/1/81	9.990	13.69	14.0 ^a	SO	A1	A+		
Counties									
Allegheny RA, PA	10/1/81	7.500	12.95	14.0 ^a	LO	A	A		
Cities									
Chicago, IL	12/1/81	20.000	13.52	13.0 ^a	LO	A	A		
Philadelphia RA, PA	12/1/81	33.000	13.70	14.0 ^a	LO	A	A		
Percentage Application of Total Funds									
Issuer	Loans	Reserves	Loan	Loan	Costs of Is-	Capital-ized Interest	Funds from Other Sources (In mil-lions of dollars)	Other Federal Sub-sidy	
			Insurance Fund or Reserve	Acqui-sition Costs					Dis-count
States									
Arkansas HDA	86.2	7.7	1.3	1.6 ^a	2.7	0.5	0.0	0.85 ^b	--
Minnesota HFA	84.7	8.9	0.8	2.2	2.2	0.3	0.8	6.4 ^b	--
New Jersey MFA	88.1	6.2	0.2	2.0	2.6	0.9	0.0	1.0 ^a	--
Wisconsin HFA	80.5	13.5	2.4	0.7	2.9 ^b	b	0.0	3.9 ^c	--
Counties									
Allegheny, PA RA	84.6	8.2	1.0	2.0	2.2	1.9	0.0	1.6 ^b	CDBG
Cities									
Chicago, IL	84.6	10.0	1.2	0.0 ^b	2.3	1.0	0.8	5.0 ^c	CDBG
Philadelphia, PA RA	82.7	11.8	0.8	1.7	2.3	0.6	0.0	5.0 ^b	CDBG

(Continued)

TABLE B-1. (Continued)

Issuer	Percentage of Lendable Funds Set Aside for Target Areas	Income Limits (In thou- sands of dollars)	Recipi- ent of Excess Arbi- trage ²	Issuer's Other Outstanding Bonds (In millions of dollars)				Issuer's Fund Bal- ance (In millions of dollars)
				Single- Family	Multi- Family	Home Improve- ment	Other	
States								
Arkansas HDA	4.1	40 ^c	M	297.7	0.0	0.0	0.0 ^d	12.8 ^e
Minnesota HFA	4.2	24	T	402.6	510.2	113.7	0.0	10.0 ^c
New Jersey MFA	20.0	b	T	417.0	0.0	122.7	0.0	6.9 ^c
Wisconsin HFA	--	d	--	98.2	338.7	24.9	0.0 ^e	0.6 ^f
Counties								
Allegheny RA, PA	5.9	30 ^c	--	0.0	0.0	8.5	0.0 ^d	0.2 ^e
Cities								
Chicago, IL	16.8	37 ^d	M	--	--	--	--	--
Philadelphia RA, PA	20.0	c	M	--	--	--	--	--

-- Information not available in official statement.

1. Obligation is of the issuer.

LO = limited obligation

SO = special obligation

GO = general obligation

2. T = U.S. Treasury

M = Mortgages

FOOTNOTES TO INDIVIDUAL ISSUES FOR TABLE B-1

ARKANSAS HOUSING DEVELOPMENT AGENCY

\$16 million

Home Improvement Loan Revenue Bonds, 1981 Series A

- a. This represents moneys to pay lenders' origination fees. Other initial loan costs are charged to the borrowers.
- b. Contribution to the issue from the Agency's general funds.
- c. There is an additional \$2,000 allowance for each dependent.
- d. In addition, the issuer has \$28.8 million in construction loan notes outstanding.
- e. As of June 30, 1981, audited.

The Agency is contributing \$850,000 from its general fund to the issue for general purposes.

The Agency will pay lenders loan origination fees of \$100.

48 lenders.

MINNESOTA HOUSING FINANCE AGENCY

\$52.625 million

State Assisted Home Improvement Program Bonds, 1981 Series A

- a. Interest rates vary with the borrower's income, and they range from 3 percent for those with incomes below \$6,000 up to 14.5 percent for those with incomes between \$18,000 and \$24,000. The weighted average interest rate is expected to be about 10.9 percent.

(Continued)

MINNESOTA (Continued)

- b. \$6.2 million state appropriation to be used to fund totally the reserve fund (\$5.2625 million) and to purchase loans (\$937,500). \$0.2 million in additional contributions to purchase loans.
- c. As of June 30, 1981, balance in the General Reserve Account was \$9.995 million.

Minnesota has a longstanding policy of appropriating funds for the Agency. It has, since the Agency was formed, appropriated a total of \$147.7 million for various programs.

\$5.2625 million of the state appropriation of \$6.2 million will fund totally the reserve fund. The remaining portion of the appropriation will finance \$937,500 of loans. Although the average interest rate on the loans will be below the interest rate on the bonds, the state contribution will bring the assets up to 107 percent of bond principal.

NEW JERSEY MORTGAGE FINANCE AGENCY

\$15.075 million

Second Home Improvement Loan Program Revenue Bonds
1981 Series A

- a. Contribution from the Agency's General Fund.
- b. No income limit is specified in the official statement, but loans may be made only to low- or moderate-income people.
- c. Unrestricted General Fund balance, as of August 31, 1981. \$1 million is deposited in the reserve account for these bonds.

Agency contribution of \$1.03 million; \$1 million to fund totally the reserve account, \$5,000 for loan acquisition costs, and \$25,000 to fund the loan insurance account.

Housing Rehabilitation Loan Revenue Bonds, 1981 Series A

- a. Preliminary, subject to change.
- b. The percentage for costs of issuance is included in the percentage for discount.
- c. Excess program revenues of \$3.7 million and legislative appropriations of \$231,000.
- d. Income limits are generally 120 percent of county median income, but are 140 percent of median for "reinvestment neighborhoods."
- e. In addition, the issuer has outstanding \$63.5 million of housing revenue bond anticipation notes and \$36 million of construction loan notes.
- f. As of June 30, 1981, audited.

The contribution of \$3.9 million is being used to finance loans, augment the reserve funds, and pay the costs of loan acquisition. The \$3.9 million contribution comes from a \$5.8 million legislative contribution made in 1978 and earnings on that contribution, and earnings from the proceeds of previously issued bonds. The 1981 bonds are issued under the same general resolution as \$24.8 million of previously issued bonds. Loans and other investments made from bonds issued under the resolution back all of the bonds.

The Authority plans to offer loans at an interest rate of 14 percent, but if Community Development Block Grant funds or other funds become available, the interest rate on some of the loans made to low-income people will be subsidized.

REDEVELOPMENT AUTHORITY OF ALLEGHENY COUNTY

\$7.5 million

Home Improvement Loan Revenue Bonds, 1981 Series A

- a. Some loans to borrowers of low and moderate income may bear an interest rate of 6 percent. These lower interest rates are subsidized by Community Development Block Grant funds.
- b. A portion of the county's CDGB funds.
- c. There is a \$1,000 allowance for each dependent. This limit is for the 14 percent loans. For the 6 percent loans, the income limits follow the Section 8 required limits.
- d. The Authority issued \$8.95 million in construction loan notes in 1980.
- e. As of March 31, 1981, audited.

The 1981 Series A bonds are issued on a parity with a prior issue of \$8.5 million made under the same indenture.

The county has allocated CDBG funds to the issue as follows: \$950,000 for acquisition of loans; \$180,000 for loan purchase expenses; \$375,000 for costs of issuance and underwriters' fees; and \$95,000 for loan insurance.

CITY OF CHICAGO, ILLINOIS

\$20 million

Home Improvement Loan Revenue Bonds, 1981 Series A

- a. Some loans will be subsidized to lower their interest rates to 5 percent or 9 percent.
- b. The loan acquisition costs percentage is included in the percentage for loan purchases.
- c. Community Development Block Grant funds.

(Continued)

CITY OF CHICAGO (Continued)

- d. Income limits vary depending on the size of the household and whether the house is located in a targeted area. The interest rate on loans for houses in targeted areas will be 5 percent of families with incomes below \$13,350 (\$23,800 for a family of eight), and 9 percent for families with incomes below \$18,350 (\$32,750 for a family of eight). The income limits for regular 13 percent loans, which can be made for houses located anywhere in Chicago, range from \$25,050 to \$37,500, depending on household size.

\$5 million of Community Development Block Grant funds have been contributed to the issue to purchase loans (\$3.6 million), to fund half of the Capital Reserve Fund (\$1.2 million), and to fund half of the Loan Reserve Fund (\$154,387). CDBG funds will be used to subsidize the interest rates on loans for houses in targeted areas from 13 percent to 5 percent or 9 percent.

REDEVELOPMENT AUTHORITY OF
THE CITY OF PHILADELPHIA

\$33 million

Home Improvement Loan Revenue Bonds, 1981 Series A

- a. Community Development Block Grant funds will be used to subsidize some loans to interest rates below 14 percent.
- b. Community Development Block Grant funds.
- c. For 14 percent loans, the income limit is 120 percent of median income for the Philadelphia SMSA. For loans with lower, subsidized interest rates, the income limit is 80 percent of area median income.

\$5,000 of Series AA \$100 bonds are being issued concurrently.

\$5 million of Community Development Block Grant funds have been contributed to the issue for general purposes. The funds will also subsidize interest rates for some loans.

TABLE C-1. SAMPLE OF BONDS ISSUED FOR RENTAL HOUSING IN LATE 1981

Issuer	Dated	Net Interest Cost (In percents)	Amount of Issue (\$ millions)	Funds from Other Sources (\$ millions)	Percentage Application of Funds				Capitalized Interest	Type of Obligation 1	Type of Program 2
					Mortgages	Reserves	Discount	Cost of Issuance			
States											
California HFA	12/1/81	13.04 a	29.3	0 b	84.53	12.00	3.00	0.48	0	SO	Direct \$8 Loans c
Massachusetts HFA	12/1/81	12.06	47.410	2.620 a	84.67 b	12.49	2.28	0.56	0	SO	Direct \$8 Loans
Michigan State HDA	11/1/81	13.07	40.0	0	83.72	13.30	2.67	0.31	0	GO	Direct \$8 Loans
New Jersey HFA	12/1/81	11.059	65.715	b	b	--	--	--	--	GO	Direct \$8 Loans
State of Oregon	12/1/81	13.074	18.175	0	80.20	15.00	3.29	0.58	0.93	SO	Direct \$8 Loans
Cities and Counties											
Arizona											
Tucson, IDA	12/1/81	11.50	54.150	1.074 a	84.82	11.45	2.55	0.95	0.23	LO	L to L
Arkansas											
Little Rock RHEB	12/1/81	11.09	30.815	0.268 a	83.65	12.90	2.48	0.97 b	0	LO	Collateral - L to L
Florida											
Clay County HFA	11/15/81	11.86	12.0	0	85.00	9.59	3.50	1.91 a	0	LO	Collateral - L to L
St. John's Co. HFA	11/15/81	12.62	20.0	0	85.55	9.18	3.47	1.81	0	LO	L to L
Texas											
Denton County HFC	11/1/81	11.69	14.92	0.13 a	83.66	12.89	2.48	0.97 b	0	LO	Collateral - L to L

-- Information not available from official statement.

(Continued)

1. Obligations are always of the issuer. For instance, the California bonds are special obligations of the California Housing Finance Agency, and the Oregon bonds are special revenue obligations of the state of Oregon. LO = limited obligation, GO = general obligation, and SO = special obligation.

2. L to L stands for loans to lenders.

TABLE C-1. (Continued)

Issuer	Percent of Units for Low-Income Tenants	Prepayment Penalty (as percent of principal)	Other Federal Subsidies	Bond Ratings Moody's S&P's	Number of Lenders	Other Bonds Outstanding			Fund Balance ³ (\$ millions)
						Single-Family (\$ millions)	Multifamily (\$ millions)	Other (\$ millions)	
States									
California HFA	100 d	---	\$9	A+	---	89,585	223,330	398,590 e	62,027 f
Massachusetts HFA	100 c	---	\$9	A+	None	0	1,114,605	d	33,647 e
Michigan State HDA	100 a	0-3	\$9	A+	None	234,240 b	635,135 b	443,915 b	51,336 c
New Jersey HFA	95 c	---	\$9	AA	None	0	1,165,72 d	---	50,487 e
State of Oregon	100 a	b	\$8	A+	None	278,010	91,100	23,025 c	20,777 d
Cities and Counties									
Arizona									
Tucson, IDA	20 or 30 b	0-2.5 c	None d	AAA	6	---	---	---	---
Arkansas									
Little Rock RHFB	20 c	0-4 d	None	AAA	2	---	---	---	---
Florida									
Clay County HFA	20 b	0-5 c	None	---	1	---	---	---	---
St. John's Co., HFA	20	0-5 a	None	---	3	---	---	---	---
Texas									
Denton County HFC	20 c	0-4 d	None	AAA	2	---	---	---	---

3. From Balance Sheet.

FOOTNOTES TO INDIVIDUAL ISSUES FOR TABLE C-1

CALIFORNIA HOUSING FINANCE AGENCY

\$29.3 million

Multi-Unit Rental Housing Revenue Bonds, 1981 Series C

- a. Canadian interest cost.
- b. The California Legislature appropriated \$20 million to create a supplementary reserve account to be used to secure all bonds, including these, issued by the Agency.
- c. Loans may be financed directly by the Agency or through private lending institutions.
- d. The housing developments are all to be \$8.
- e. As of December 16, 1981. Homeownership and home improvement revenue bonds for mortgage and property improvement loans in neighborhood and preservation areas throughout California. The Agency also has \$195 million of short-term notes outstanding, which are not included in this table.
- f. Unaudited, September 30, 1981. Includes \$20 million appropriated by the State.

These bonds are secured on a parity with the other outstanding multi-unit rental housing revenue bonds of the Agency, under the same indenture.

MASSACHUSETTS HOUSING FINANCE AGENCY

\$47.41 million

Residential Development Bonds Issue II, 1981 Series A
(Section 8 Assisted)

- a. \$2.620 million has been appropriated from unrestricted funds of the Agency to the Capital Reserve Fund.

(Continued)

MASSACHUSETTS (Continued)

- b. Mortgages constitute 84.67 percent of all funds, including the Agency appropriation, but 89.35 percent of bond proceeds.
- c. All projects to be \$8.
- d. The Agency had \$223.577 of construction and bond anticipation notes outstanding on September 30, 1981. These are not included in these totals.
- e. Total unrestricted fund balances for all Agency programs were \$33,647,000 as of June 30, 1981.

Bonds all mature on or before October 1, 2010, but mortgages are expected to have terms of 32 years. Bondholders have the right to tender the option bonds (due October 1, 2009) at par on October 1, 1986 and each October 1 thereafter. Crocker National Bank provided a letter of credit under which it will cover, under certain circumstances, option bonds which are tendered.

The agency collections a financing fee from each mortgagor of 2 percent of loan principal and an annual servicing fee of 1/2 of 1 percent of principal.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

\$40 million

Section 8 Assisted Mortgage Revenue Bonds, 1981
Series III

- a. All units will be \$8 units and hence occupied by low-income tenants.
- b. Bonds outstanding as of November 1, 1981. Amounts listed here as single-family or multifamily bonds were clearly identified as such in the official statement. The "other" category includes \$35.140 million identified as home improvement bonds and \$408.775 million that includes both single-family and multifamily housing development bonds with no breakdown speci-

(Continued)

MICHIGAN (Continued)

fied. In addition, the Authority has \$25 million of short-term notes outstanding, which are not included in this table.

- c. Fund balances are due in part to amounts appropriated by the State for a variety of purposes over the 1968-81 period. In addition, only \$1.8 million is not pledged to bond issues or restricted for special use. The Authority has in its portfolio delinquent mortgages with an unpaid principal balance of \$23.802 million. Fund balances are invested in some illiquid instruments, such as mortgages.

These bonds rank on a parity of lien with the \$635.135 million of other Section 8 bonds outstanding. The Authority charges mortgagors a financing fee of 3 percent of loan principal, a nonrefundable loan assessment fee of 1.5 percent, and a special fee of up to 2 percent.

NEW JERSEY HOUSING FINANCE AGENCY

\$67.715 million

Section 8 Bonds, 1981 Series B

- a. Bond proceeds will finance the \$8 projects, two of which will be financed partly with proceeds from a prior bond issue. The state has previously appropriated funds to the agency (apparently expecting to be repaid eventually), and the agency director is required annually to advise the Governor of shortfalls in reserve accounts. The state may (but does not have to) appropriate funds to bolster the accounts.
- b. Not available from the official statement.
- c. At least 95 percent of the units must be rented to very low-income families (those with incomes under 50% of area median income).

Tenants pay 30 percent of their incomes as rent; the federal government pays the remainder. Monthly rents on similar units currently financed by the agency are: \$441 for a 1 BR; \$711 for a 4 BR apartment.

(Continued)

NEW JERSEY (Continued)

The effective interest rate on mortgage loans is expected to be 12.5 percent. The Agency will collect 2.5 percent of principal from each mortgagor at loan closing.

Application of Proceeds of the 1981 Series B Bonds

For deposit in the Escrow Fund	\$47,489,450
For deposit in Housing Finance Fund	7,303,078
Allowance for Underwriters' Discount	1,807,163
Maximum Offering Price to Public	<u>\$56,599,691</u>
Discount to the Public	<u>9,115,309</u>
Principal Amount of Issue	\$65,715,000

- d. As of October 1, 1981. In addition, the Agency had outstanding \$34 million in short-term construction notes.
- e. As of April 30, 1981, unaudited. Of the \$50.487 million in fund balances, \$28.706 million is restricted under bonds and obligations resolutions, \$385,000 is pledged for mandatory retirement of bonds and obligations, and \$21.396 million is for the Administrative Fund, which is being lent to assist financially troubled projects.

STATE OF OREGON

\$18.175 million

Housing Finance Revenue Bonds
(Assisted or Insured Multi-Unit Program)
1981 Series B

- a. Agency expects to use all bond proceeds for eight \$8 projects, so all tenants would be low income. If any project turns out not to be \$8 assisted, at least 20 percent of its units must be held for low-income tenants.
- b. Expect all projects to have initial HUD \$8 contract term of 20 years.

(Continued)

OREGON (Continued)

- c. Bonds outstanding as of December 1, 1981. \$23.025 million of general obligation bonds of the state is outstanding for housing for the elderly.
- d. Unaudited, as of September 30, 1981. The state of Oregon has contributed capital of \$110,098. Of the remaining \$20.667 million retained earnings, only \$2.256 million is unreserved.

These bonds are equally and ratably secured with \$78.495 million in bonds outstanding that was issued under the same indenture. The Governor may note deficiencies in the Capital Reserve Account and the state may appropriate (but is not legally bound to do so) funds to make up the deficiencies. Multifamily bonds issued thus far have financed 2,905 units--1,557 elderly units, 1,328 family units, and 20 group care units for the mentally retarded.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE CITY OF TUCSON, ARIZONA

\$54.15 million

Loans-To-Lenders Multifamily Housing Revenue Bonds

- a. Commitment fees paid by lenders range from 0 percent to 2.75 percent of principal, depending on location of the project. (Official Statement, p. 7)
- b. In "priority areas," 20 percent of units must be reserved for low-income tenants; in other areas, 30 percent of units must be reserved for low-income tenants.
- c. Amount of penalty depends on date of prepayment.
- d. No federal subsidy is mentioned. \$5.2 million of the loan fund is being set aside for loans in a downtown redevelopment area, to be administered by a private nonprofit corporation, the Downtown Development Corp.

Owners must pledge to maintain all units as rental until their loan is fully paid, or until October 1, 1989 (whichever is later).

(Continued)

TUCSON, ARIZONA (Continued)

In addition, the requirement that 20 percent of units must be rented to low-income tenants for 20 years is a covenant that will run with the land. The Authority has bought a letter of credit from the Bank of America National Trust and Savings Association.

Lender loan notes will have 11.875 percent initial rate; interest rates on mortgages must not exceed 12.875 percent. Lenders may charge owners: pro rata share of lenders commitment fee, origination fee up to 2 percent of loan principal, and other customary fees.

CITY OF LITTLE ROCK, ARKANSAS

\$30.815 million

Residential Housing Facilities Board
Collateralized Loans-To-Lenders Housing Revenue Bonds
1981 Series A

- a. Lender commitment fees equaling 1 percent of loan principal.
- b. "Includes payment of \$72,000 to Citibank, representing the initial Collateral Purchase Agreement Fee, which includes the initial fee to be paid to the Evaluator." (Official Statement, p. 4)
- c. Each developer has to covenant to keep at least 20 percent of units available for rental to low-income tenants for at least 20 years. This is a deed restriction and "such covenant runs with the land and will bind the Developer and any subsequent owners of the Development for a period of 20 years . . ." (Official Statement, p. 29) In the event of violation, the Board has the right to sue.
- d. No prepayments allowed before 1987. Penalties thereafter depend on date of prepayment.

The lender loans are general obligations of the lenders, secured by collateral of 125-150 percent of the lender loan amount. If a developer loan is in default, Citibank can purchase

(Continued)

LITTLE ROCK (Continued)

the pledged collateral on behalf of the Board. The longest bonds mature in 11 years.

The interest rate on the lender loans is 11.45 percent; the rate on developer loans will not exceed 12.45 percent.

HOUSING FINANCE AUTHORITY OF CLAY COUNTY, FLORIDA

\$12 million

Collateralized Loans-To-Lenders Housing Revenue Bonds
1981 Series A

- a. Of the 1.91 percent, 1.50 percent is described as "cost of issuance," and 0.41 percent is a program fee to the issuer.
- b. 20 percent of the units must be made available to low- and moderate-income people, and the remainder must be rented to people whose incomes are less than 150 percent of the county's median income. Annual rents on the units may not exceed 30 percent of the respective income ceiling.
- c. No loan may be prepaid before November 15, 1986. Thereafter, depending on the date of prepayment, the penalty ranges from 0 percent to 5 percent.

Although these bonds all mature on or before May 15, 1991, the developers covenant to keep 20 percent of the units available for low- and moderate-income families for 20 years. In addition, for this entire period, the low- and moderate-income units must be "similar to and intermingled with all other units in the Project, and the tenants will enjoy equal access to all common facilities of the Project." (Official Statement, p. 14)

HOUSING FINANCE AUTHORITY OF ST. JOHN'S COUNTY,
FLORIDA

\$20 million

Collateralized Loans-To-Lenders Housing Revenue Bonds
1981 Series A

- a. Amount of prepayment penalty depends on date of prepayment.

There are no outside contributions. The bonds are collateralized loans to lender bonds, backed by mortgage loans, collateral and the general obligation of the lending institutions.

Lenders are allowed to charge developers origination or commitment fees of up to 4.1 percent of loan principal. They may also charge servicing and other customary fees.

DENTON COUNTY HOUSING FINANCE CORPORATION,
TEXAS

\$14.92 million

Collateralized Loans-To-Lenders Housing Revenue Bonds
Series 1981 A

- a. Lender commitment fees equaling 1 percent of loan principal.
- b. "Includes payment of \$34,875 to Citibank, representing the initial Collateral Purchase Agreement Fee, which includes the initial fee to be paid to the Evaluator." (Official Statement, p. 3)
- c. 20 percent of units must be rented to low income tenants (or held vacant) for 20 years. Until the later of 1987 and the time the note is repaid, 90 percent of the units must be rented to "qualifying tenants," initially designated to be families with adjusted gross incomes under \$37,500. Each development must remain rental for at least 20 years.
- d. No prepayments before 1987. Thereafter, the prepayment penalty depends on date of prepayment. Covenant as to 20 percent low-income units runs with the land.

(Continued)

DENTON COUNTY (Continued)

The interest rate on lender loans is 11.93 percent; the rate on developer loans is 12.93 percent. Citibank agrees to a 14.17 percent interest rate on money in the Capital Reserve Fund.

Lender loans are general obligations of lenders, backed by collateral of 125-150 percent of loan principal that will be sold to Citibank in the even of default.

The longest bond matures in 10 years.